DOCUMENT RESUME

ED 431 077 CE 078 698

| | |
|---|---|
| AUTHOR | Tackey, N. D.; Perryman, S. |
| TITLE | Graduates Mean Business: A Study of Graduate Self-Employment and Business Start-Ups. |
| INSTITUTION | Sussex Univ., Brighton (England). Inst. for Employment Studies. |
| REPORT NO | IES-R-357 |
| ISBN | ISBN-1-85184-268-1 |
| PUB DATE | 1999-00-00 |
| NOTE | 137p. |
| AVAILABLE FROM | Grantham Book Services Ltd., Isaac Newton Way, Alma Park Industrial Estate, Grantham NG31 9SD, England, United Kingdom; Web site: http://www.employment-studies.co.uk/pubs/ (35 British pounds). |
| PUB TYPE | Reports - Research (143) |
| EDRS PRICE | EDRS Price MF01 Plus Postage. PC Not Available from EDRS. |
| DESCRIPTORS | *Career Choice; *Career Counseling; College Graduates; Comparative Analysis; Counseling Services; Counseling Techniques; *Education Work Relationship; Employed Women; *Employment Patterns; *Entrepreneurship; Foreign Countries; Graduate Surveys; Higher Education; Literature Reviews; National Surveys; *Self Employment; Trend Analysis |
| IDENTIFIERS | *England |

ABSTRACT

Self-employment among graduates of England's higher education institutions (HEIs) was examined. The study included five elements: literature review; qualitative development stage involving exploratory interviews with 16 key players and in-depth interviews with 15 self-employed graduates from Sussex University and the London Institute; mail survey of all 152 careers services in England's HEIs (response rate, 48%); mail survey of a sample of 3,029 graduates of selected HEIs (response rate, 21%); and development of good practice materials. Of the graduates surveyed, 31% were currently or had been self-employed, 26% had considered self-employment, and 43% had no interest in self-employment. Women were more likely than men to have some self-employment experience. Self-employment was highest among graduates of creative arts and design courses. Graduates with better-class degrees were more likely to have self-employment experience. A family background in self-employment was a significant factor influencing labor market status in self-employment. Four principal areas where HEIs could play an important role in preparing students for self-employment were identified: promote business awareness, foster entrepreneurial attributes, contribute toward skills training, and help in business planning. (Sixty-eight tables/figures are included. Appended are a full list of courses and full list of sectoral activity. The report contains 85 references.) (MN)

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# Graduates Mean Business

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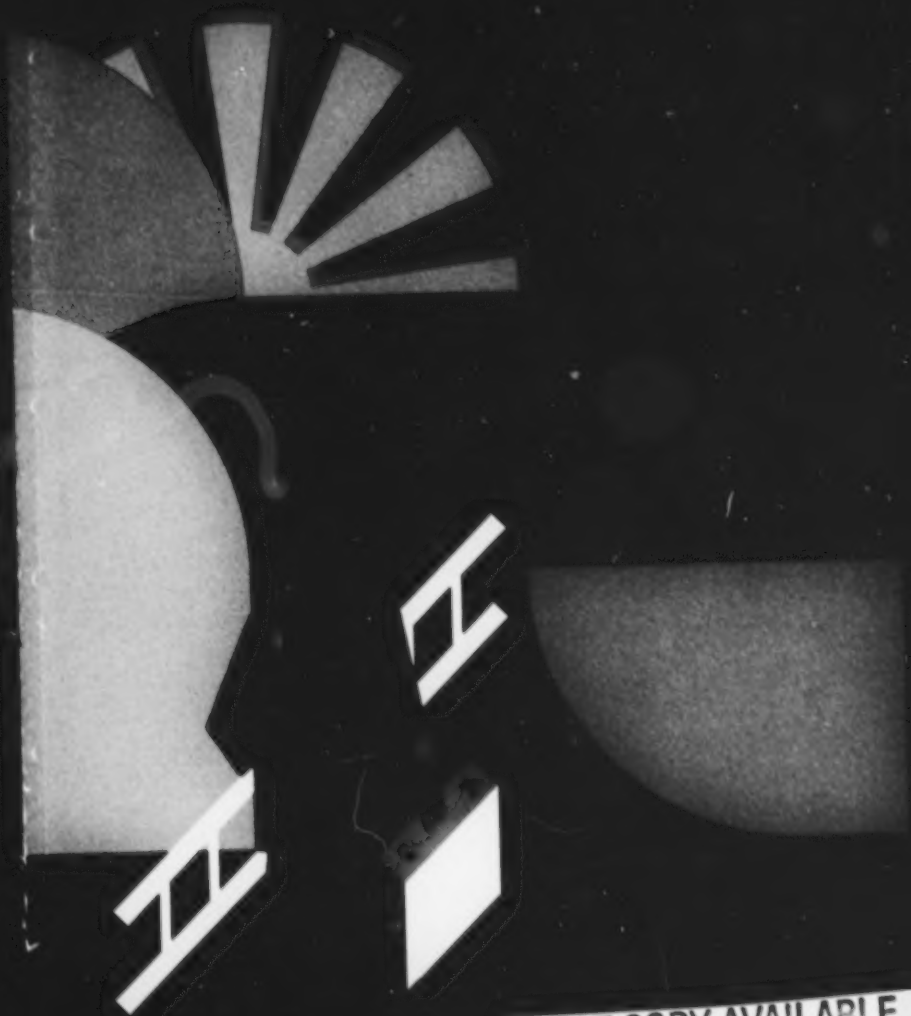

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# Graduates Mean Business:
## A study of graduate self-employment and business start-ups

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Report 357

Published by:

THE INSTITUTE FOR EMPLOYMENT STUDIES
Mantell Building
Falmer
Brighton BN1 9RF
UK

Tel. + 44 (0) 1273 686751
Fax + 44 (0) 1273 690430

http://www.employment-studies.co.uk

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**British Library Cataloguing-in-Publication Data**

A catalogue record for this publication is available from the British Library

ISBN 1-85184-268-1

Printed in Great Britain by IKON Office Solutions plc

## The Institute for Employment Studies

The Institute for Employment Studies is an independent, apolitical, international centre of research and consultancy in human resource issues. It works closely with employers in the manufacturing, service and public sectors, government departments, agencies, professional and employee bodies, and foundations. For 30 years the Institute has been a focus of knowledge and practical experience in employment and training policy, the operation of labour markets and human resource planning and development. IES is a not-for-profit organisation which has a multidisciplinary staff of over 50. IES expertise is available to all organisations through research, consultancy and publications.

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**Acknowledgements**

We would like to thank many organisations and individuals who contributed to the provision of source data and material on which this report is based. Thanks are due to the heads of careers services at the higher education institutions which participated in the study, for making available their database of graduates included in the sample. In the same vein, thanks also go to LiveWire and the Prince's Youth Business Trust for helping with source data. We would like to thank all the people who took part in our interviews and other consultations. Their inputs contributed greatly to our conclusions.

Many thanks go to Marc Cowling of the Centre for Small and Medium Sized Enterprises at Warwick Business School who provided specialist advice to the project; and to Helen Connor, IES Associate, for her comments and suggestions. We must especially mention Carolyn Morris of Sussex University Careers Development Unit and Selina Springbett at London Institute for providing us with an insight of the work of careers services in higher education institutions. Lastly, but by no means the least, our sincere thanks go to Ron Allen of the Department for Education and Employment for his contribution to the deliberations of the Steering Group.

Within IES thanks are due to Jim Hillage for his helpful contribution. We are also grateful to Emma Hart and Denise Hassany for producing the original manuscript, but especially to Sue Kent and Andy Davidson who prepared the report for publication.

Since the report was completed Sarah Perryman, the co-author of this report has left IES for a year in the United States. This report could not have been possible without her detailed analysis of the data.

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# Executive Summary

There is little evidence on the extent to which self-employment has become a significant career destination for new graduates. The graduate labour market is changing, and with no promises of linear corporate careers, self-employment offers wider opportunities. Success, however, requires development of entrepreneurial and specific business skills which are not part of traditional higher education courses.

This report presents the main findings of a research study carried out by the Institute for Employment Studies in partnership with Sussex University Careers Development Unit and the London Institute Careers Service. Commissioned by the Higher Education Quality and Employability Division of the Department for Education and Employment, the overall aims of the study were: to explore the extent of, and the potential for, self-employment as a significant career destination for graduates; whether there is a need for this to be reflected in higher education careers guidance; and how these activities could be supported. The study was carried out between March 1998 and January 1999.

## Definition

The attempt to describe the extent to which graduates are entering self-employment, raises three key issues:

1. There is an issue of definition of self-employment, and whether there is a need to distinguish this from business start-up. It is relatively easy to identify what self-employment entails from the ample literature; but there is very little literature which uses the term 'business start-up'. A useful starting point, however, is to look at what people actually do as entrepreneurs, as well as the arena in which they operate.
2. In the specific context of the graduate self-employment, another difficulty for research is to find appropriate comparators against which to measure the level of activity. An appropriate comparator could enable conclusions to be drawn about the true level of graduate self-employment.
3. The third issue concerns methodology of measurement. Self-employment is not a static condition or status. Increasingly, for some graduates, it has become part of the portfolio of

career activities. In particular, there is constant entry and exit, making it difficult to measure the true level of self-employment using a particular point in time as reference.

It is possible to arrive at a working definition of what constitutes graduate self-employment and business start-up. The former refers to graduates who consider themselves to be self-employed in the sense that they have more than one customer or client. The latter refers to entrepreneurs who comply with the legal forms of a business arrangement, trading solely, or in partnership, or as a company. The definition excludes people who describe themselves as self-employed because it suits their sole employers' tax arrangements.

## Characteristics of the graduates

The graduates in our sample were divided into three distinct groups for analysis—those who had any experience of self-employment since graduating; those who had considered self-employment as a career option either on entering higher education, or at the time of graduating; and those who had no interest in self-employment.

Nearly one-third (31 per cent) of the graduates were self-employed, or had been at some time since graduating with their first degree. Over a quarter (26 per cent) had thought about entering self-employment, whilst over two-fifths (43 per cent) expressed no interest in self-employment. The research findings also showed that:

- women were more likely than men to have some experience of self-employment. They were also more willing to consider such a career.
- self-employment was influenced by the degree course. The majority of those in self-employment graduated in the creative arts and design.
- there was some association, albeit slight, between degree class and self-employment. Graduates with better class degrees were more likely to have experience of self-employment.
- a family background in self-employment was a significant factor influencing a labour market status in self-employment.

## Career patterns

The initial destination of the graduates, when assessed one year after graduation, showed that although the majority of graduates were in employment as employees, one out of every eight (12 per cent) was self-employed. The highest levels of self-employment were recorded among media and film graduates, and the lowest among those graduating in the new technologies

(including computer sciences). At the time of the survey for this study the oldest cohort of graduates had been in the labour market for four years and the youngest for two years. About two out of every five graduates (19 per cent) were in some form of self-employment at this stage.

The analysis of the career patterns of the graduates showed rising levels of self-employment over time, and considerably higher in comparison with the graduate population as a whole. This suggests that self-employment was increasingly becoming an important career destination for these graduates. The decision to enter self-employment was also being made at an earlier stage in the careers of those graduates. The aspiration for self-employment and business start-up was also high, and was underlined by the fact that a high proportion of the graduates had a business idea they would have liked to pursue. That aspiration, however, did not always translate into deed, and raises an issue for policy to harness, stimulate and nurture the ideas and translate them into businesses.

## Employment experiences

The study examined graduates' experience in the labour market, in terms of their jobs and utilisation of their higher education qualifications in those jobs. Job changes were, on the whole, less frequent; and whilst the majority of graduates worked full time, the incidence was highest among graduates with no interest in self-employment. By contrast, graduates with experience of self-employment were more likely to work part time in their first job. Although utilisation of university qualification (*ie* graduate degrees) varied, the majority of the graduates thought a degree was helpful in getting their first job.

What emerged from the analysis of their employment experiences was that the graduates with less interest in self-employment were more likely to follow a traditional employment route, with a full-time job in a large organisation. By contrast, those with self-employment experience opted for smaller organisations.

## The self-employment experience

The self-employed graduates chose self-employment principally for the independence and flexibility it offered. Financial rewards were not very high on their list of motivating factors, nor was security of employment. Extrinsic factors which influenced the choice of self-employment included family background, in particular, parental influence. Work experience in small organisations was also considered important.

The majority of these graduates were engaged in a combination of activities rather than only one type of self-employment:

- the most popular form of self-employment was providing services to customers
- very few worked within a family business
- three in five self-employed graduates worked on their own (ie with no employees)
- the graduates were significant employers, and had altogether just under 2,000 employees
- the majority worked an average of 40 hours a week, but a small proportion worked in excess of 60 hours
- earning levels were skewed: the median annual salary was £8,000, and three-quarters earned £18,000; variations in earning levels reflected the length of time in the labour market.

From their characteristics, two types of graduate self-employment emerged. One was the self-employed business which was likely to only support the owner-manager. The second was the new business start-up with employment growth potential.

Skills issues were important to the self-employed graduates. They relied extensively on their innovative and creative skills, which also they believed they had developed to a considerable extent at university. Other than this, there were significant gaps in acquiring and developing generic business skills such as accounting, book-keeping, product pricing, selling and, importantly, business planning. These skill deficiencies presented significant constraints to business start-up.

## The role of careers guidance

The issue of whether self-employment should be reflected in the curriculum in higher education was one of the objectives of the study. The study identified four principal areas where higher education, through careers services, could play an important role, to:

- promote business awareness
- foster entrepreneurial attributes among graduates
- contribute towards skills training
- help in business planning.

The conclusion that emerged from the review of careers services activity was the need to develop expertise among staff to review and provide access to support that graduates contemplating self-employment would need or find useful. There are examples of good practice in this respect, although they are too few and far between. The need for good practice to be more widely disseminated is one of the principal outcomes of this study. To

that extent, this research report forms one part of the study's dissemination. Good practice materials have also been developed, drawing on the findings of this study and practice elsewhere among HEIs, and will be widely available to practitioners.

# 1. Introduction

This report presents the main findings of a research study carried out by the Institute for Employment Studies (IES) in partnership with Sussex University Careers Development Unit and the London Institute Careers Service. The study was commissioned by Higher Education and Employment Division (HEED) of the Department for Education and Employment (DfEE), as part of its Higher Education and Employment Development Programme. HEED is now retitled Higher Education Quality and Employability Division. The overall aims of the study were to explore the extent of, and the potential for, self-employment as a significant career destination for graduates; whether there is a need for this to be reflected in higher education career guidance; and if so, how these activities could be supported. The study was carried out between March 1998 and January 1999.

## 1.1 Background to the research

One of the key changes in employment patterns in the 1980s was the growth in self-employment, and the increase within this of some groups, in particular, women, young people and former unemployed people (Meager *et al.*, 1994). After a brief decline during the recession of the early 1990s, this upward trend has continued, and is predicted to reach four million by the millennium (IER, 1996). The evidence on the extent to which self-employment is becoming, or has become, an important destination for recent graduates, however, is not conclusive. For example, an increase in self-employment among new graduates was predicted at the beginning of the decade. In England, the only comprehensive evidence on the level of self-employment among new graduates is collected by the Higher Education Statistical Agency (HESA), and published in their annual First Destinations Surveys. These consistently show that less than two per cent of graduates enter self-employment (La Valle *et al.*, 1996); but these are based on data collected only six months after the completion of a degree, and are likely to understate the true level of self-employment among this group. However, it is likely that as the British Household Panel Survey (BHPS), which collects job history information, is extended it will permit further longitudinal analysis of graduates movement into (and out of) self-employment. Other information on the level of graduate self-employment is based on responses obtained from studies on

specific higher education institutions (*eg* Connor and Pollard, 1996; La Valle *et al.*, 1997), and cannot be generalised to the whole graduate population. A recent, more comprehensive report on graduates' careers did not explore this issue at all (Belfield *et al.*, 1997). Anecdotal evidence, however, suggests many more graduates consider self-employment as a career destination than the available statistics show. Indeed evidence on small businesses and self-employment suggests, furthermore, that graduates are more likely to become self-employed or start a business after spending some time working for an organisation and so, as a first significant step, gaining appropriate experience and confidence (DfEE, 1997 — HEED Programme, *Prospectus*).

In recent years, too, there has been a growing concern in higher education about graduate 'employability', and the adequacy of the skills developed during a degree course. The need to include a broader range of skills in the curriculum is one of the key recommendations of the Dearing Inquiry, and has been highlighted by recent studies (Hawkins and Winter, 1995; La Valle *et al.*, 1997). In particular, it is increasingly acknowledged that graduates can no longer expect stability and a linear career progression and, therefore, need to be alert to the growing and varied range of graduate opportunities, often in non-traditional areas (Harvey *et al.*, 1997). However, research on graduate skills has tended to focus on employers' views of skill requirements, gaps and mismatches. Far less is known about what graduates themselves think about the skills they acquire during their degree course, and how useful and adequate these are in their subsequent careers. A recent review of UK business start up policy (Gavron *et al.*, 1998) argued that 'the education system's potential contribution to making Britain a more entrepreneurial society could be significant but is currently neglected'. The authors concluded that it is important to introduce children and students to business experience and to the relevance of commercial skills for whatever career they pursue. On this basis they advocated a continuum of support throughout the education system in which Industrial Liaison Officers, Careers Officers and Business Support organisations should be mobilised to provide support.

There is a widely-held view among some commentators that UK graduates see themselves less as entrepreneurs than do their counterparts in the United States. In particular there is a perception that graduates' attitudes to the world of work orient them inexorably towards a career in large organisations. Paradoxically, the Shell Technology Enterprise Programme (STEP), which was designed explicitly to encourage a more positive attitude amongst students about employment in small firms and likewise for small firms about graduates, actually increased their probability of large firm employment (Westhead and Storey, 1996). There is a perception, moreover, that careers advice and guidance have an impact on determining career choice and destination. The question is whether there is a link

between the type of guidance available to them, and the choice of destination of graduates. Gibb, for example, has suggested that the lack of enterprising zeal among UK graduates can partly be attributed to a higher education culture which does not regard working for small and medium-sized enterprises (SMEs) or starting one's own business as a high status option. In this respect Gibb is taking issue with the higher education system in general and the careers services in particular, for not offering clear gateways into the self-employment and small business sector. This, in part, probably reflects an attitude which makes a distinction between the primary and secondary labour market, such that 'the former is seen as large company, formal and respectable, and the latter is the small firm, informal and of low status', (Gibb, 1997). However, Gibb neglects any discussion of why individuals choose to undertake further education in the first place. It is likely, for example, that the prospect of a large firm career is the prime motivation for many students.

To this extent, students are a self-selecting group of the wider population inherently attracted to the higher salaries, structured promotions ladders and generous non-pecuniary benefits of large firm employment. For these students, education acts as a signalling device to prospective employers about an individual's quality. Nevertheless, the Association of Graduate Recruiters (AGR) has also expressed similar concern: at the inequalities of a labour market where graduates seek well-paid jobs in large firms, with training and higher career development prospects, while small firms are likely to offer low-paid, low skill jobs with minimal training and lower career opportunities (Gavron *et al.*, 1998). Indeed, a recent report for the DfEE (William and Owen, 1997) found that graduate employment levels in the SMEs studied were lower than the national average for all firms in the UK. That study estimated that only about eight per cent of SME employees were graduates (*ie* degree holders), compared with about 13 per cent of the economically active population of the UK. In other words, graduates were under-represented in the SME workforce. It is likely that this situation is changing, albeit slowly. A more recent study of graduates from 21 HEIs (CSU-AGCAS-IER, 1999) found that about 40 per cent worked for organisations which employed up to 250 people (*ie* in SMEs).

The need to stimulate graduates' interest in enterprise activities has wider implications. Gibb, for example, foresees greater externalities, and equates any attempt to attract ambitious and highly educated young people into self-employment at an early age with sowing the seeds for future growth of the economy. What is more, a rapidly changing graduate labour market may push more graduates to take up self-employment or start in business as a career option and, therefore, need to be prepared for it. Evidence from Cowling, Taylor and Mitchell (1997) shows that 12 per cent of the male self-employed have university degrees, and a further 24 per cent other high level qualifications (post 'A' level). The equivalent figures for the waged employed

are 14 per cent and 26 per cent, marginally higher in both cases. The differences for women are more marked. For example, at the post-graduate degree level around four per cent of the self-employed have these qualifications compared to only two per cent of the waged employed. At first degree level the self-employed figure is 13 per cent compared to nine per cent for the female waged employed. For other higher level qualifications the differences are equally striking. Here around 29 per cent of female self-employed have this type of qualification compared to 22 per cent of the female waged employed. The authors concluded that education, for women, not only gives them both the confidence and motivation to start their own business but puts them in a stronger position *vis-à-vis* levering bank finance and developing supplier and customer relationships. Further, they suggest that this implicitly assumes that some form of gender discrimination exists in factor and retail markets. For people who are likely to face discrimination in the graduate labour market, self-employment offers a genuine alternative.

It can be argued in part that the influence of universities on career decisions might be important but, perhaps, not decisive. This is not to deny, however, that if the policy goal is to increase awareness of self-employment among graduates, careers services have a useful role to play. The research focuses attention, among other things, on the support the careers services in HEIs provide for students contemplating self-employment as a career option.

It is important to highlight the fact that the careers services offer very variable provision, depending on the type, mission and structure of the HEI. Indeed, how institutions view their careers service is likely to be a significant indicator of how they seek to position themselves in relation to what is perceived to be a growing concern with graduate employability and moves towards a more student-driven system (Watts, 1997). It is apparent from this that there is great diversity of function and resourcing between careers services in different institutions. In particular it is generally acknowledged that many of the newer universities have much stronger vocational traditions than the older universities. But their career services are of relatively recent origin. It has been suggested, further, that they are less well resourced. Consequently, they have a smaller proportion of their students seeking careers advice (Kirkland, 1988; Purcell and Pritcher, 1996, and cited in Watts, 1997). It is useful as well to note that provision is not uniform, and a distinction can be made between the emergence of careers advice and careers guidance, in the long evolution of the careers services. The distinction lies in whether the emphasis is on 'placement'. In the course of their development the services have increasingly recognised that guidance is an important aspect of their service, and on a par with placement, if not more so (Watts, 1997).

In any case, the careers service is not the only stakeholder in HEIs with responsibility for contributing to the preparation of students towards employment. Depending on the type of HEI, there is a range of other stakeholders. There is, firstly, the wider community in which the HEI is located. The influence of the community is likely to be reflected in way that the local labour market predominates. Indeed, the local labour market could both reflect and affect the career choices that graduates make. Moreover, some HEIs align themselves closer to their locality, and see themselves as an integral part of the community. That type of relationship (between such HEIs and the community) contrasts markedly with that of other institutions, which tend to reflect a wider national outlook. Second, individual departments within HEIs themselves are important stakeholders. It is true that many would see themselves as having little or no responsibility for their students beyond the curriculum. For other departments, however, the link is more direct, to the extent that some of the skills required to enter self-employment or start a business is integrated into the curriculum.

Some HEIs already recognise self-employment as a significant and growing area of employment, and support their students to undertake specific skill development, as well as offering small business training for unemployed graduates. Indeed, an increasing number of higher and further education institutions now offer courses in entrepreneurship and venture creation. Warwick University Business School, for example, has developed entrepreneur courses, including one for Business School undergraduates in management, accountancy, finance and economics. Courses embracing activities relating to entrepreneurship have also been established at Durham University Business School and London Business School (Gavron *et al.*, 1998). One particularly innovative business start-up course is that offered by the Centre for Small and Medium Sized Enterprises at Warwick Business School to all staff and students.

This study aims to build on the small number of existing research studies on graduate self-employment, by mapping the level, nature and patterns of self-employment among graduates, and any variations among different groups. It then aims to assess whether this is becoming a more common career destination for higher education leavers, and what factors influence their decision to contemplate entering self-employment. In this respect, the views of self-employed graduates on these issues are particularly important, as this information could help teaching and career staff to identify the skill requirements which enhance successful self-employment, and the gaps in the provision of the support necessary to achieve such success. They are also likely to highlight the need for more specific career advice and guidance for undergraduates contemplating a career in self-employment.

## 1.2 Objectives of the research

The main objectives of the research, as set out in the HEED *Prospectus*, were to:

- identify the main defining features of graduates who go into self-employment, in particular their personal characteristics, family background, degree subject, and type of higher education institution attended
- explore self-employed graduates' early post-graduation employment experiences, the different routes into self-employment and the key 'pull' and 'push' factors which influence a graduate's decision to set up their own business
- investigate the characteristics of the jobs and working environments of self-employed graduates, including: occupational group, sector, hours of work, earnings, the extent to which they regard their work as their main activity or as part of a portfolio of activities, whether they are in business on their own or employ others, their satisfaction with their job (*eg* whether the job requires graduate level ability and their skills are utilised to the full) and their future expectations
- identify self-employed graduates' views on the help higher education institutions (HEIs) could provide to graduates who wish to set up their own business, including equipping students with relevant skills (*eg* business, enterprise and career management skills) and providing a range of career advice and guidance activities
- identify and disseminate guidance on good practice among HEIs in the provision of careers advice, education and guidance to students seeking self-employment.

The research aimed to provide both quantitative and qualitative information on the whole graduate 'self-employment experience'. The quantitative data would help identify the patterns of self-employment among graduates who have been in the labour market for different periods of time. This would allow us to explore the 'success' of early self-employment experiences and give an indication of if, and to what extent, self-employment levels increase over time. At a more detailed level, the quantitative information would explore other issues as well, such as graduates' routes into self-employment, the characteristics of their jobs, incentives and barriers to self-employment, skill needs and gaps, satisfaction with their careers and their future expectations.

Qualitative information was required, on the other hand, to help focus on the total 'self-employment experience'. To this end it was important to seek the views not only of a cross section of self-employed graduates, but also of key players from careers services and enterprise support organisations involved in

helping graduates embarking on this course. The objective here was threefold. First, to gather information which would inform the design of the graduate survey, and thus provide useful contextual and in-depth data to complement the quantitative data. Secondly, to gather information (*eg* incentives and barriers to self-employment, skill needs and gaps) which would be used to develop good practice materials. The third objective was to use the information-gathering process to identify 'experts' for the Delphi exercise employed for the development of the good practice materials.

## 1.3 Methodology

The research methodology contained five main elements, as follows:

- a review of the relevant literature and data
- a qualitative development stage, comprising exploratory interviews with key players and in-depth interviews with a cross section of self-employed graduates
- a postal survey of all careers services in higher education institutions (HEIs) in England
- a postal survey of graduates drawn from selected HEIs
- development of good practice guide materials.

We briefly set out the approach of each stage below.

### 1.3.1 Literature and data review

The starting point for the research was a comprehensive search and review of the relevant, and available, literature and data on graduate employment and graduate skill needs. The review provided an early indication not only of the level of graduate self-employment, but also of the relationship between education and entrepreneurship. In particular, it indicated the advantages of education itself, and the extent to which educational qualifications have an important role in reducing the constraints of 'mobility', thereby giving entry to establishment 'institutions' for those with such qualifications. In this respect, the review highlighted the need for a study of this kind, to ascertain to what extent graduates' entrepreneurial potential and career orientation, and the locus of control of these, are constrained by factors which reflect upon the wider university community. Importantly, the review of the literature provided us with a working definition of graduate 'self-employment' and 'business start-up', whilst the review of the data provided us with suitable comparators for estimating the relative levels of entrepreneurial activity, *ie* whether graduate self-employment or business start-up is high or low.

The review examined, among other things:

- definitions and methodological issues involved in researching graduate self-employment and business start-ups, and provides a practical, working definition of these
- the extent to which self-employment is a significant career destination for new graduates, including the level of self-employment and the relationship between education and self-employed status
- which graduates choose self-employment
- self-employed graduates' early post graduation experiences
- the potential of self-employment as a significant career destination for new graduates, and
- the need for self-employment as a career destination to be reflected in HE career guidance activities.

The findings from the review informed and assisted the research design and helped us to assess the gaps in our knowledge about graduate self-employment.

### 1.3.2 The qualitative development stage

In view of the limited nature of existing research in the subject area, it was considered important to put a great deal of effort into the qualitative stage of research prior to the postal surveys. This would help identify the key issues (related to graduate self-employment) to enable the development of appropriate research instruments for the quantitative research. There were two strands to this stage — exploratory interviews with key players, and in-depth interviews with self-employed graduates.

#### Exploratory interviews

A wide ranging list of key players was drawn up for this stage of the research. They included careers advisers in HEIs, representatives of ACAS, TEC-funded enterprise programmes, charities and organisations involved in helping young people to set up their own business. A series of in-depth face-to-face interviews was carried out with representatives of 11 organisations and business support providers, and five heads of HE careers services. The interviews took place during May and June 1998, and consisted of open-ended discussions, driven by a broad 'topic guide', to explore respondents' views on three broad issues. First, their experiences of graduates going into self-employment, the difficulties such graduates face, and the support available to them. Second, on what links, if any, they have with HEIs; including the nature of those links, and the benefits to both the HEIs and themselves. Third, the discussions explored respondents' perceptions about the role of enterprise activities in the curriculum of undergraduate courses. This stage

of the research was used, further, to identify key individuals who were prepared to participate in the Delphi exercise for the development of the good practice materials.

### Interviews with self-employed graduates

The IES outline bid for the study proposed that the respondent self-employed graduates to be interviewed for this stage of the research would be selected from among participants in earlier surveys carried out by IES for Sussex University and the London Institute. That list would be supplemented with other self-employed graduates identified during the exploratory interviews with key players. Altogether, 15 such graduates from Sussex University and the London Institute were contacted, and interviews conducted with five of them. In addition, interviews were also conducted with three graduate entrepreneurs identified by the key players. As with the key players, the interviews were in the form of open-ended discussions using a semi-structured guide, which allowed for in-depth exploration of a broad range of issues.

The main aim of the interviews with self-employed graduates was to find out as much as possible about their self-employment experience. The discussions focused on issues such as the motivating factors behind their decision, the paths they followed into self-employment, the nature of the support available to them, their skill needs, as well as the barriers and constraints to success. These issues were teased out of four broad topic areas. First, their education and experience before entering higher education, including any employment or work-related experience. Second, their experience in higher education; in particular, the main influences on their career thinking, and whether (or how) these may have led to the decision to enter self-employment. Third, their perceptions about the role of enterprise activities in the curriculum; in particular the skills imparted or learnt (or not, as the case may be) that may be relevant to running a business. Fourth, their post-graduation experiences; in particular the steps into self-employment.

This qualitative stage of the research yielded complex information which it was considered necessary to analyse in a systematic way. We used special purpose software QSR NUDIST, designed for qualitative data analysis, and particularly suited to interview data. The aim of the analysis was to systematically describe and classify the range of attitudes, perceptions and behaviours which emerged from the data. It also enabled us to build on the descriptive process and provide explanations for the behaviour, attitudes and perceptions of the self-employed graduates.

The information gathered from this qualitative stage of the research was invaluable as input to the design of the empirical stages of the research in a two particular respects. First, it

enabled areas of questioning in the surveys to be prioritised, and thus minimised the burden on respondents; secondly, it provided guidance on which issues were essential to be included in the surveys.

### 1.3.3 Postal survey of careers services

A postal survey of all careers services in HEIs in England was carried out during August and September 1998. A list of addresses, including named heads of the services, was obtained from the Directory of Careers Service for this purpose. At one level of detail, information was required on self-employment levels among graduates from different institutions and subject areas and, possibly, with different characteristics. The primary objective of the survey, therefore, was to gather basic information on the proportion of their graduates (from 1994, 1995 and 1996) who were self-employed six months after completing their course, and any details available on this group, such as gender, age, ethnicity and degree subject. At a more detailed level, information was sought on a range of issues, such as the level of interest in self-employment expressed by students; the range of initiatives and support activities provided by the careers services to raise awareness of self-employment or starting a business as a career option for students, including support from elsewhere within the HEI; the external sources of support used by careers services for students seeking to become self-employed or starting their own business; careers services views on the skills necessary for self-employment and which of the skills could be introduced or incorporated in the undergraduate curriculum. The views of careers services was also canvassed about what they would like to see included in the development of the good practice materials. However, another important aim of the careers services survey was to identify and select the HEIs to be included in the main survey of graduates.

The content of the postal survey questionnaire was devised by IES in consultation with the DfEE, and taking considerable account of the findings from the qualitative stage. The questionnaire was piloted with four careers services and modified to take account of their comments.

A total of 152 questionnaires were administered. When the survey was closed, 65 valid and 17 invalid responses had been received. The invalid responses were largely from HEIs which either did not provide careers advice, or that were part of HEIs providing such service centrally (Colleges of University of London, for example). The valid responses translated into a satisfactory response rate of 48 per cent. Another nine questionnaires were returned after the survey closed, but were not included in the analysis.

### 1.3.4 Postal survey of graduates

The main data collection element of the research was a postal survey of cohorts of 1994, 1995 and 1996 graduates. The survey was conducted during October and December 1998. It was intended that the survey would cover both graduates who went into self-employment straight after graduation, as well as those who followed other career paths. The survey was expected to provide empirical data on a wide range of issues. At the detailed level, information was sought from all the graduates on:

- the degree course, including subject area and mode of study; this was extended to explore their perceptions of what progress they made in acquiring a range of skills during their time in higher education
- their experiences since graduation, in particular what they were doing at specific periods of time
- their employment experiences, including the extent to which they considered themselves to be in 'graduate level employment' and, therefore, utilising graduate skills
- their career aspirations, and how satisfied they were with their careers to date; this was extended to explore any latent ambition or potential for self-employment, through the pursuit of any business ideas they may have had.

Particular attention was focused on graduates who were self-employed at the time of the survey, or had ever been self-employed at any time since graduating from higher education. The emphases here were on:

- the reasons for becoming self-employed or starting a business
- what kind of self-employment they were engaged in
- the type of advice and support they had used, and
- the extent to which their time in higher education helped them develop the range of skills critical for success.

The questionnaire was devised by IES, in consultation with the DfEE, and was informed by the input from the qualitative stages of the research. It was then circulated to the Steering Group for the study to comment on. The revised questionnaire was piloted among the graduates who were interviewed in the qualitative stage.

#### Sampling strategy

It was envisaged that the survey would cover 4,000 graduates drawn from eight to ten HEIs that would agree to co-operate with the survey, and could provide a list of graduates according to IES specification. The intention was that the participating HEIs would represent a broad, but not necessarily representative, cross-section

of institutions with a higher than average proportion of graduates entering self-employment.

The HEIs included in the initial samples were self-selecting, therefore, having indicated their willingness to participate in this stage of the research from the earlier survey of careers services. In practice, the HEIs from which the sample was drawn either had higher than average proportions of graduates entering self-employment overall (as was the case of the London New University and Midlands New University), or had specific courses from which a relatively high proportion of graduates entered self-employment (as was the case of the Northern Red Brick University, Southern HEI and Northern Technical University). It became apparent early on at this stage that a sample drawn strictly on the self-selected basis would not generate sufficient cases for most of the relevant variables required, or allow for more rigorous analysis of the data generated. Consequently, it was decided to include only HEIs that indicated their institutions as a whole, or individual departments or courses, had a higher than average proportions of graduates entering self-employment. Because there was still a risk of shortfall in the achieved sample of self-employed graduates from these HEIs, it was decided, further, to approach known organisations which provide support for young people who want to start their own business, and see if they would be willing to help with the research. A sample of graduates was drawn from the database of young people, held by two such organisations, to complement that provided by the HEIs. A sample of 3,479 graduates was generated to be included in the survey.

The composition of the final sample, drawn from participating HEIs and the support organisations, is shown in Table 1.1.

**Table 1.1: The composition of the participating HEIs**

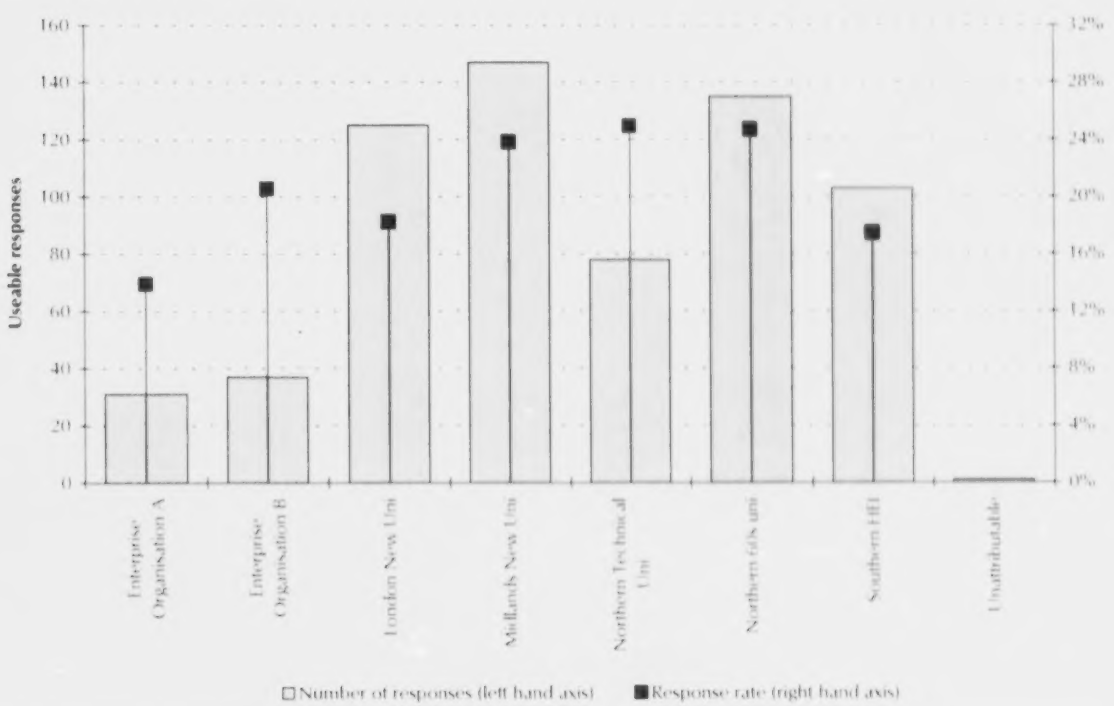
| Institutions/organisations | N |
|---|---|
| **Higher Education Institution** | |
| London New University | 778 |
| Midlands New University | 677 |
| Northern Technical University | 330 |
| Northern 'Red Brick' University | 600 |
| Southern HEI | 644 |
| **Total** | **3,029** |
| **Enterprise Organisation** | |
| Organisation A | 200 |
| Organisation B | 250 |
| **Total** | **450** |

*Source: IES Survey, 1998*

Questionnaires were sent out to all the graduates in the sample initially, and blanket reminders sent four weeks later. The questionnaire remained in the field for approximately eight weeks. The survey yielded 656 useable responses, a response rate of 21 per cent. The response from the survey was in line with expectation, in terms of valid useable responses and 'Post Office returns'. Questionnaires were returned by the Post Office where the intended respondents were no longer at the addresses to which they were sent. The number of responses, as well as the response rate, from the participating institutions and organisations are shown in Figure 1.1.

It is worth noting that this was a retrospective survey, and thus relied on the recall of individuals about their experiences over a number of years. For some it was only two years; for others, more than four years. Inevitably, this is a source of potential error as some respondents may have omitted, or forgotten in detail, short periods of, say, employment or unemployment. It is also worth pointing out that the data on unemployment is likely to be influenced disproportionately by the fact that one of the two organisations from which the sub-sample was drawn provides support for young people who are unemployed to start a business.

**Figure 1.1: Responses and response rate, by participating HEIs and private organisations**




*Source: IES Survey, 1998*

## 1.4 Structure of the report

As far as practical, the report is structured according to the themes which, together, constitute the objectives of the research. Each of the chapters following the next chapter is based principally on information from the quantitative surveys of graduates and the careers service. Where appropriate, specific issues are illustrated with examples from the qualitative interviews of key players and self-employed graduates.

The report is divided into eight chapters.

Chapter 2 deals with the main issues of definition and methodology involved in researching graduate self-employment. The chapter draws on existing literature, and provides a working definition of the labour market status under review.

Chapters 3, 4 and 5 present the findings from the graduate survey and interviews. Chapter 3 describes the sample of graduates in terms of their main characteristics.

Chapter 4 covers the career patterns of the graduates, and provides details of their initial destinations, any further studies they have undertaken, and any periods of unemployment they have experienced since graduating from higher education.

Chapter 5 extends the theme of the previous chapter, and looks specifically at the jobs the graduates are doing now, and compares these with their first jobs. There is further examination of the characteristics of those jobs, in terms of activity sector, size of establishment, and the status of the jobs, in terms of whether or not they are perceived as graduate level employment.

Chapter 6 focuses exclusively on those graduates who are either currently self-employed or have experienced any periods of self-employment since graduating. The chapter discusses, among other things, the reasons for choosing self-employment, the routes into self-employment, as well as the characteristics of their self-employment.

Chapter 7 poses the question, and discusses, whether there is a need for self-employment, as a career destination, to be reflected in higher education careers guidance activities.

Chapter 8 summarises the main research findings, draws conclusions and, where necessary, makes suggestions for action.

# 2. Graduate Self-employment and Business Start-ups: Issues of Definition and Methodology

In attempting to describe the extent to which graduates are entering self-employment or starting their own business, and whether that activity is becoming a significant career destination for them, we are faced with three issues:

- definition of what constitutes the activity
- a reasonable comparator against which to adequately describe the identified trend(s)
- a methodology with which to measure what activities constitute self-employment.

## 2.1 Synonyms and definitions

Although the research specification refers to graduate 'business start-ups', we use the term graduate 'self-employment' where appropriate because it encapsulates a broader range of this labour market status. There is very little in the literature which uses the term 'business start-up', and although there is some literature on self-employment, it is mostly economic/secondary data analysis material. There is a wider range of literature on enterprise, entrepreneurship, and education. Each of these phrases, though, has a slightly different meaning.

### 2.1.1 Entrepreneur and enterprise

Entrepreneurship is widely perceived to be a key driver of economic advancement via its ability to facilitate the creation of new products, services and markets and bring new technologies to bear in existing areas of the economy. Historically the theoretical conceptualisation of entrepreneurial behaviour dates back several hundred years to philosophers like Cantillon. Yet the seminal works were written in the early part of this century by people like Frank Knight (1921) and Joseph Schumpeter (1936). To Knight, entrepreneurs could be distinguished from the general population by their attitudes to risk, being relatively risk-loving. Crucial to Knight's assertion is the fact that the potential returns to risky behaviour are far higher than those available in safer activities. Given the not unfair assumption that all business start-ups involve an element of capital and/or income risk, this concept has a solid and intuitive feel to it.

Although implicitly linked to Knight's notion of risk, Schumpeter's focus was explicitly concerned with the innovative activity of entrepreneurs, and can be broadly characterised under five headings:

- Opening new markets
- Opening new sources of supply
- New products
- New production methods
- Creating new industrial forms.

Thus the entrepreneur becomes associated with economic and social change by a process of 'creative destruction', as older markets, products and methods become obsolete in the face of technological advancement, often driven by entrepreneurs. To this extent entrepreneurs create disequilibrium in the economy by hastening the decline of existing activities and replacing them with new activity.

More recent theories, such as those promoted by Cole (1969), Liebenstein (1968), Petersen and Berger (1971) and Kilby (1971), focus very clearly on the entrepreneur as a resource gatherer and a combiner of inputs. These theories, by nature, are action orientated. Other theories see entrepreneurs as individuals who identify opportunities and act upon them (see for example, Webster (1976), Gibb and Ritchie (1982), Silver (1983), Gartner (1984). In this respect Casson (1982), for example, has suggested that there are two principal ways to define an entrepreneur:

- using a functional analysis of what an entrepreneur does, which leads to the definition that 'an entrepreneur is someone who specialises in taking judgmental decisions about the co-ordination of scarce resources', or
- using an indicative approach, *ie* describing an entrepreneur by characteristics such as legal status, contractual relations, *etc.*

However, Duffy and Stevenson (1984) have also talked bout the 'impropriety of equating entrepreneurship with self-employment', and go on further to suggest it is equally inappropriate for research purposes to exclusively identify either term with 'business start-ups'.

For Casson, the arena in which the person operates in not central to the definition of an entrepreneur. An entrepreneur acts when he/she makes a different assessment of a situation from others, and can see the chance to profit as a result. Similarly, Duffy and Stevenson considered that the habitat for entrepreneurs — the opportunity-driven, who are capable of identifying and growing a new market for a new product or service — was not important, and that they could 'operate wherever the environment is most

congenial'. However, they suggested that the distinction between entrepreneurs and intrapreneurs was a useful one; perhaps an indication that the context/arena may be important. Following their analysis of Harvard MBA graduates, they found that the self-employed (the entrepreneurs who are self-employed) and those within the corporate fold, could be separately distinguished, although each could also claim the label 'entrepreneur'.

Gibb (1997) provides a tautological definition of both entrepreneur and enterprise. According to Gibb, an entrepreneur is someone with enterprising competencies. Although all entrepreneurs behave enterprisingly (and, therefore, the two words become virtually synonymous), enterprise competencies can be used in many situations, and the word entrepreneur is generally used for people acting in commercial settings. Caird (1990) uses this same distinction, adding that entrepreneurs are a sub-set of enterprising people.

Mullen (1998) considered that an exact definition of the 'entrepreneur' was effectively unnecessary, as newcomers (graduates) build their own definition as they learn, through practice and interaction with business practitioners, to be entrepreneurial. Accordingly, the definition of 'entrepreneurial' may be deemed redundant. What is more important is building a system where those involved in business start-up can interact with business practitioners. As the new entrants build up their model of entrepreneurial behaviour, an individual definition is born. For Mullen, entrepreneurship is about the acquisition of confidence, language, and legitimacy or credibility.

A common theme which runs through these definitions is that the entrepreneur is identified by what they do (in other words, their skills and competencies), as well as the arena in which they operate. Caird (1990) noted that there was a great deal of confusion over what enterprise and entrepreneurial competencies were, and where they overlapped. Like Mullen, Caird also noted the dynamic in entrepreneurial skill development.

> *'If the entrepreneur determines the nature of the business and the business dictates the requisite skills and attributes, then enterprising attributes are probably dynamic, variable and changing.'*

Caird consequently recommended the use of formal competency identification techniques to identify entrepreneurial and enterprising attributes.

Given the fairly well established, and for the most part complimentary, theoretical development of entrepreneurship in terms of the entrepreneurs' psychological attributes and behavioural characteristics, we now turn our attention to the real world identification of entrepreneurs in the context of business start-up with particular reference to self-employment.

### 2.1.2 Self-employment

The overwhelming majority of business start-ups in the UK are undertaken by either a single individual (in the region of 66 per cent) or two individuals (22 per cent) who, for tax purposes, are classified as self-employed. The fields of law, tax, sociology, *etc.* all provide their own definitions of self-employment. There is a complex body of employment law which defines in legal terms who is or is not an employee. Self-employment status has often been ascribed on the basis of nominal employment status (*ie* what the parties to the labour contract choose to call it), National Insurance and/or the tax schedule used. Most official statistics focus on main occupations, and may miss those individuals for whom the development of a business is not their principal occupational activity. The Labour Force Survey collects data on secondary occupations, although the numbers involved are very small.

From a sociological point of view, Dale (1986) has criticised these indicators as just proxies for self-employment, but which do not adequately address the more ambiguous status of home-workers, freelances, and the like. Dale suggested that two things were more important in the contractual relationship between the labourer and the contractor — ownership of the means of production, and autonomy over work processes.

Hakim (1988) has suggested that there is a further problem when limited definitions (tax schedule *etc.*) are used with official statistics; namely, that this underestimates the true level of entrepreneurial activity. There are a number of reasons for this:

- with low paid/low hours jobs, people fail to reach the relevant tax threshold. This may be particularly true of new business ventures.
- only sole traders and partnerships are counted as self-employed. When a business is registered as a limited company, the person who started it generally becomes an employee of the business, and is excluded from the figures. Hakim suggested that this was a real problem, in particular because this group is also the more interesting to study.
- within work settings employees and the self-employed may be indistinguishable in everything but their contractual arrangements.

Evidence on job histories reported in Taylor (1998) shows that the average duration in self-employment is far higher than that of those in waged employment (seven years versus five years). For women, fewer significant differences were apparent. Taylor also reports some new and interesting results concerning the reasons for terminating self-employment. Here we find evidence to contradict the widely held perception that all business cessations are failures. The evidence is reported in Table 2.1.

**Table 2.1: Reasons for exit from self-employment (%)**

| | Male | Female |
|---|---|---|
| Better/different job | 47.9 | 35.8 |
| Bankruptcy | 18.0 | 9.9 |
| Retirement | 9.2 | 7.8 |
| Ill health | 6.2 | 5.2 |
| Family care | 0.7 | 19.8 |
| Moved | 2.0 | 6.1 |
| Full-time education | 1.6 | 2.0 |
| Other | 14.4 | 13.4 |

*Source: M P Taylor (1998), 'Self-Employment Survival, Exit and Bankruptcy in Britain'*

Hakim suggested three more appropriate indicators of self-employment:

- making a non-trivial investment of capital, or some similar statement of 'business-ship', *eg* renting premises, or getting incorporated
- working for two or more organisations/people rather than just one for the whole time, and
- taking on other employees.

### 2.1.3 Business start-up

The term 'business start-up' describes two types of situations. A business can legally take many forms, *eg*: sole trader, partnership, company, *etc*. This is the most straightforward definition of a new business start-up. But it can also be used to describe a process. In a report entitled *The Financing of Technology-based Small Firms*[1], the Bank of England (1996), for example, used the term to describe the four stages in a business development lifecycle — seed, start-up, early growth and sustained growth. The Bank suggested that how quickly a firm moves through the four development stages is dependent upon things like the product and market, as well as management capability. Traditionally, stage models of business growth found favour in the business literature. The best known examples are Churchill and Lewis (1972), Greiner (1979) and Scott and Bruce (1987).

[1] There is no consensus about the definition of a small or medium-sized business (SME), despite the Bolton Report (1971). According to the Bolton definition, a small firm in manufacturing has less than 200 employees; it has a small share of the market; it is managed by its owners in a personalised way rather than by a formal management structure; and it is independent, in that it is not part of a larger enterprise and the owner-managers take major decisions free from outside control. Other commentators define SMEs as businesses with fewer than 50 or even 25 employees.

These tend to emphasise the critical role of top management to business success. However, whilst these models are intuitively appealing they have been found to be lacking when confronted with real world data. For example, it has been noted that only 50 per cent of businesses get past the inception and survival stages (Cressy, (1996), Taylor, (1998)). For those that do, only ten per cent manage to achieve anything more than moderate growth. It is clear that the vast majority of existing businesses in the UK never go through the sorts of growth and expansion stages characteristic of stage models of firm growth. Indeed an overwhelming majority of small, mature businesses are still owned and controlled by their original founder (Cowling, 1999).

The characteristics of each stage in the Bank of England report are as follows.

The **seed stage** describes the conception and development of the business idea. Research and development is carried out and the market for a new product or process is assessed. The founders, their family and friends provide most of the necessary resources.

The **start-up stage** commences with the launch of the business. At this stage the new business's structure is likely to emerge, and the founders may seek external finance. The Bank of England suggested that new technology-based firms have more problems with this stage, particularly in attracting investment. The Bank suggested further that the 'high quality scientific ability of the founders may not necessarily be coupled with business, marketing and managerial skills, which may limit the potential of the firm'. Although the Bank's focus was on technology-based companies, this may be equally true of other types of business. In other words, taking a business from a concept to the market may also highlight the skills, knowledge, experience and shortcomings of many entrepreneurs.

The **early growth stage** marks the end of the original product's development and the growth of sales. The Bank of England suggested that although uncertainty is reduced at this time, and change of ownership is possible (*eg* incorporation), many companies fail to grow due, among other things, to lack of motivation on the part of the entrepreneur. A large-scale study of SMEs in the UK (SBRC, 1992) reported that only one in three owners of firms actually expressed growth as a business objective. This reinforces the findings presented earlier concerning the irrelevance of stage models of business growth.

During the **sustained growth stage**, the company grows rapidly and both the product and customer base diversify.

## 2.2 Comparators

A second problem which arises from any discussion of graduate entrepreneurship is concerned with estimation of the relative

level of activity, *ie* whether graduate self-employment or business start-up is high or low. This is a problem largely of an adequate comparator group; in other words whether self-employed graduates should be compared with:

- all employees — in which case there are intervening factors such as age, education and gender profile, and how these have changed over time
- new labour market entrants — this is probably the most useful comparator group, although the most difficult to identify from official labour market statistics
- people of a similar age group (*ie* 21-22 year olds) — the difficulty here is that this group of young, 'traditional' graduates is now in the minority, given the structural changes that have taken place in higher education since 1992.

Indeed the changing profile of higher education provision and entrants makes it difficult to compare relative levels of self-employment among new graduates over a long time span. Consequently, it is more appropriate to consider trends over the last ten years only, at the most.

## 2.3 Methodological considerations

'Self-employment' is often used in an over-simplified way, to describe a labour market situation that for most of the graduates involved, is far from static. Rosa and McAlpine (1991) have highlighted some of the potential difficulties researchers face thus:

> *'As academics interested specially in small business ownership as a career, there is a natural tendency to polarise everything in terms of two divisions, self-employment and employment. In reality graduates do not dichotomise the world in this way. The option of self-employment and small business choice is but one choice of many career paths.'*

A recent IES study by IES (La Valle *et al.*, 1997), on behalf of the London Institute, also highlighted the diversity of career patterns, and the extent of 'career portfolios' among arts graduates in particular.

A second aspect of this problem is that surveys which ask about main occupational status are likely to exclude a large number of self-employed (or entrepreneurial) people, with two consequences. First, by concentrating on a subset whose principal characteristic or status is entrepreneur, the real nature of self-employment for the majority is missed or overlooked. Second, much bigger sample sizes are required to generate data that is big enough to enable reasonable analysis of the self-employed element.

### 2.3.1 Longitudinal versus cross sectional approaches

It is equally an over-simplification to suggest that because an individual is self-employed at a particular point in time, then this is a suitable defining characteristic. Cowling and Taylor (1998) show that only 18 per cent of the population in Britain have ever been self-employed. Thus in a given year with a self-employment rate of 14 per cent, only four per cent of those in waged employment would have ever been self-employed. This suggests that there is a fairly stable cohort of individuals who enter, exit and re-enter self-employment over time. Dolinsky *et al.* (1993) have noted that individuals may enter, exit and re-enter self-employment over time; and measuring who is self-employed at a particular or specific point misses the long-term, self-employment experience of individuals. Moreover, the overall likelihood of a person being measured as self-employed may vary according to the propensity of their group or defining characteristic (in Dolinsky's case, level of education) to enter, stay and re-enter self-employment. Further, as Taylor (1998) shows, the average duration of self-employment spells is particularly high, thus reducing the probability of exit and re-entry.

Similarly, Granger *et al.* (1995) considered it an over-simplification to dichotomise theories into 'economic push' and 'entrepreneurial pull'. Granger *et al.* suggested, instead, that theories of self-employment should not consider only the personal factors which motivate people to become self-employed. It is equally important to also consider what factors encourage people to stay in self-employment or exit from it, as a result of, for example, change in people and the economy over time. This is because when asked, people will generally give positive reasons for choosing self-employment. However, such questions are posed 'usually in the context of research strategies which fail to actually track career moves and events leading up to the point of [the] decision'. DeMeza and Southey (1996) argue that only optimists choose self-employment, as pessimists will always underestimate their potential.

## 2.4 A working definition

Using our theoretical definitions of entrepreneurship, it is clear that a substantial number of the self-employed do not equate with the risk-loving innovators of Knight and Schumpeter. Many could quite easily be classified as pseudo self-employed in the sense that they operate in identical jobs, for the same firms, as they did previously as employees. The advantage to the employer of such contractual arrangements lie in the avoidance of payroll costs and firing costs. However, recent legislative changes have forced many of this type of self-employed individual to return to waged employment. For example, legislation now prohibits the

self-employed from working continuously for a single employer, and operating with trivial capital investments.

On a related theme, an empirical study in the UK by Parker (1998) found that the distribution of income amongst the self-employed was increasingly polarised at the extremes. There were substantial cohorts of extremely low income earners at one end of the distribution and a large minority of extremely high income earners at the top end. This is fundamentally different from the comparable distribution for wage earners which is approximately 'normal' in a statistical sense. Robson (1997), also finds that average incomes of the self-employed, relative to the wage employed, have fallen dramatically since the late 1980s. This is associated with the large influx of poorly capitalised, low skilled self-employed in subsequent years.

Thus we are beginning to establish some facts which tend to drive a wedge between the notion of entrepreneurship as a theoretical concept and the realities of self-employment in the UK. However, it is also true that the overwhelming majority of entrepreneurial business start-ups will be identifiable empirically as a subset of the total self-employed.

In the light of these considerations, our working definition of what constitutes graduate business start-ups focuses upon:

- graduate 'entrepreneurs' in the narrower sense, *ie* people who have started up businesses, even if they are now technically employees of that business, and
- those graduates who consider themselves to be self-employed, *ie* those with more than one customer or client, such as freelances.

Throughout this report, though, the term 'self-employment' (or the self-employed) is used synonymously to describe these two groups of graduates, unless where specific emphasis is being placed on ownership (proprietorship) of an establishment. In this respect entrepreneurial 'business start-up' is an identifiable subset of 'self-employment'.

This narrow definition will, necessarily, exclude:

- people who are self-employed because it suits their (often sole) employer's tax arrangements
- 'intrapreneurs', *ie* people who behave enterprisingly in employing organisations and/or outside the private sector.

That is not to say that enterprising behaviours or competencies do not have great application in more traditional graduate careers. It may be considered a 'good thing' if HEIs encouraged such behaviour because in doing so, there may well be an increase the number of graduate entrepreneurs.

# 3. The Characteristics of the Graduates

Before presenting the data on the career patterns and employment experiences of the graduates surveyed, we first describe in this chapter the characteristics of the sample itself. The graduates in the sample are described here in terms of their personal characteristics, as well as their higher education background. As one of the objectives of the research is to assess the likely patterns of graduate self-employment, we considered it necessary to examine the extent to which it could be surmised that the potential exists for more graduates to enter self-employment. In order to highlight this potential, we have created a variable to describe those graduates who considered self-employment as a career option around the time of graduation or after, but who for one reason or another did not pursue that option. Thus, instead of describing the sample as a whole in general terms, we have divided the respondents into three distinct groups as follows:

- those who were in self-employment at the time of the survey, or had been at some time since graduating
- those who had thought about entering self-employment since graduating — the 'potential group', and
- those who had never had any interest in self-employment.

By doing so, it is possible to compare and highlight what differences exist across a much wider range of graduate labour market intention and experience.

The data showed that just under one-third (31 per cent) of the graduates in our sample were either in some form of self-employment at the time of the survey, or had been at some point since they graduated with their first degree. More than a quarter (26 per cent) indicated they had thought about entering self-employment at some time in the immediate past. However, more than two-fifths of the sample (43 per cent) had no interest whatever in self-employment (Table 3.1).

These findings are significant in themselves. HESA's First Destinations Survey (FDS) statistics show consistently that only around one per cent of UK graduates enter self-employment. It is known, of course, that a higher proportion of those who graduate from the specialist HEIs (such as colleges of Art, Design and Music) enter self-employment. The 1996 FDS

**Table 3.1: Distribution of the sample according to potential for self-employment**

| | N | % |
|---|---|---|
| Self-employed | 201 | 31 |
| Considered self-employment | 165 | 26 |
| Not interested | 273 | 43 |
| *Total* | *639* | *100* |

*Source: IES Survey 1998*

showed that these ranged from 46 per cent to under ten per cent among the top 20 institutions with higher than average proportions of their graduates entering self-employment. It might be expected that the proportion of graduates in self-employment would be higher if our sample had been drawn from among those institutions. However, as none of the institutions from which our sample was drawn is included in the top 20 from the HESA statistics, our finding here suggests it is likely a higher proportion of graduates enter self-employment than is reflected in official data and other research findings on the early labour market experiences of graduates.

It is necessary, though, to issue a word of caution here, as our sample was not representative of the institutions from which it was drawn, nor of the graduate population nationally. Nevertheless, given the paucity of longitudinal data on graduate career destinations, this study may be seen to break new ground by providing new information about the likely level of self-employment among graduates. In a recent large scale study on graduate careers, for example, Belfield *et al.* (1997) found that fewer than ten per cent of the 1990 cohort of Open University graduates entered self-employment.

Of particular interest to this study, the survey results also showed that a high proportion of graduates had at one time or other considered self-employment as a career option for them. However, graduates in this group were more likely than those who actually entered self-employment to be deterred by the amount of preparation needed to become self-employed. This finding has implications for HEIs and how they can respond to or stimulate this latent, unmet need.

**Profile of graduates who had thought of self-employment**

- They were more likely to be female, although the difference is not statistically significant.
- They were more likely to be older, and this is statistically significant.
- They were more likely to have studied courses in the creative arts, media and design, and this is statistically significant.

**Table 3.2: Distribution of respondents, by year of graduation**

| Cohort | N | % |
|---|---|---|
| 1994 | 162 | 25 |
| 1995 | 208 | 32 |
| 1996 | 229 | 35 |
| Others | 51 | 8 |
| *Total* | *650* | *100* |

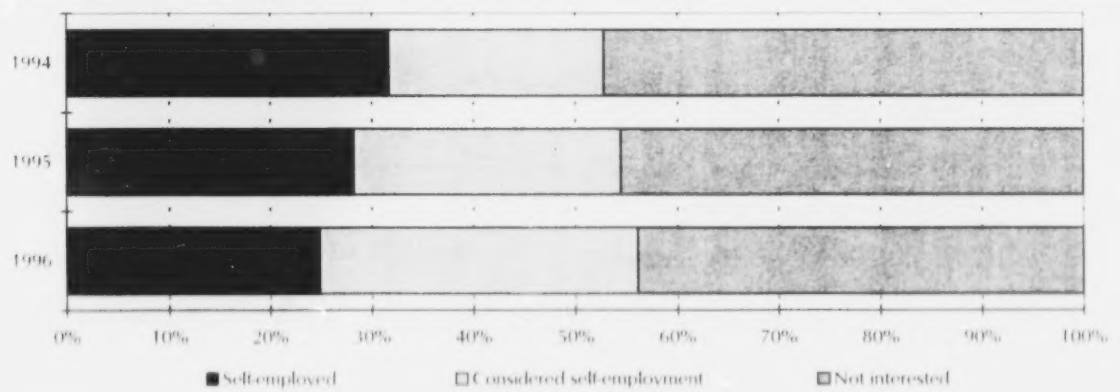
*Source: IES Survey, 1998*

## 3.1 Personal profile

The graduates were selected from three years' output from the HEIs. Over one-third (35 per cent) of the respondents graduated in 1996, compared with just under one-third (32 per cent) in 1995, and a quarter (25 per cent) in 1994. A small number of respondents (eight per cent of the sample) was outside of the three main cohort groups for the survey (Table 3.2). The pattern of response reflects, to some extent, the quality of information about graduates held by the HEIs from which the sample was largely drawn. In that respect, the results are not surprising. Graduates are a highly mobile group, and it might be expected that the older the cohort, the more likely it is that they would have changed address at some time since graduating. Conversely, it might also be expected that the 1996 cohort, with more up-to-date addresses, would produce a higher response.

The distribution of respondents from the different cohorts within our three principal groups is shown in Figure 3.1, and provides an early indication of the likely employment histories of the graduates in our sample. Within the cohorts, the highest proportion of those who were or had been self-employed at some point, graduated in 1994. Just under one-third (32 per cent) of 1994 graduates were self-employed, compared with 28 per

**Figure 3.1: The career options of graduates, by cohort**




*Source: IES Survey, 1998*

cent of 1995 graduates and around a quarter of the youngest cohort. The reverse is the case for those with the 'potential' for self-employment, *ie* the youngest cohort had the highest proportion of this group. Almost identical proportions of graduates in all three cohorts said they had no interest in self-employment. It would appear from this that more graduates move into self-employment after spending some time in the labour market. For those who do, however, this is unlikely to be a decision taken on the spur of the moment, but one which they have given thoughtful consideration. We look at this issue further in Chapter 6.

## Gender

Overall, 54 per cent of the sample were women and 46 per cent men (Table 3.3). The proportion of women in the sample is higher than the proportion of females in the graduate population in higher education (51 per cent overall). The difference is partly explained by the higher response rates from women in each year, but particularly in 1995.

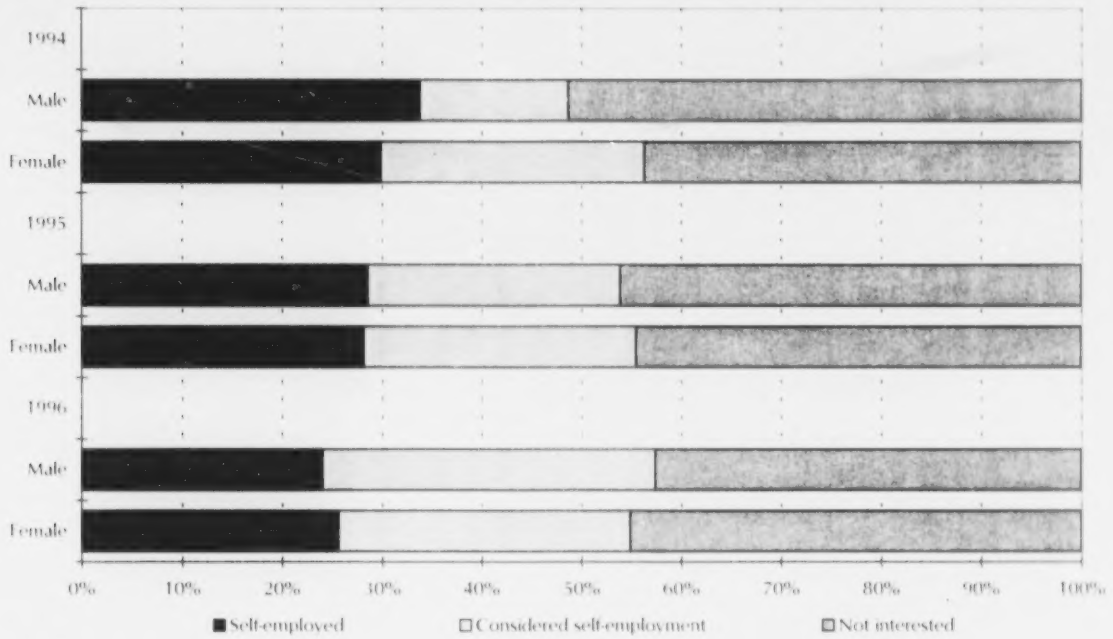
In terms of their employment intentions (from our so-called 'potential' variable), more men than women who graduated in 1994 had some experience of self-employment. About one-third (34 per cent) of the men in the cohort group had some self-employment experience, compared with 30 per cent of the women (see Figure 3.2). The positions were similar, albeit marginally, for the 1995 cohort. But more women than men in the youngest cohort group had experience of self-employment. On the other hand, women in the oldest cohort group were almost twice as likely as their male peers to have thought about entering self-employment (26 per cent, compared with 15 per cent). This may reflect a strategy for coping with possible discrimination in the waged sector, and of the increasing opportunities for self-employment in a burgeoning service sector. The difference between the sexes in the 1996 cohort group was slight, but with more men than women thinking about self-employment (33 per cent, compared with 29 per cent). There was only slight difference, in favour of women, within the 1995 cohort. Overall, there were only marginal differences between the sexes in all the three cohort groups of those graduates who expressed no interest in self-employment. However, men who graduated in 1994 were the most likely to express no interest in self-employment.

**Table 3.3: Gender distribution in the sample (per cent)**

| | 1994 | 1995 | 1996 | Others | All |
|---|---|---|---|---|---|
| Male | 46 | 45 | 48 | 43 | 46 |
| Female | 54 | 55 | 52 | 57 | 54 |
| *Total (base=)* | *163* | *207* | *229* | *51* | *650* |

*Source: IES Survey, 1998*

**Figure 3.2: The career options of graduates, by gender and year of graduation**




*Source IES Survey, 1998*

**Profile of women graduates who were in self-employment**

- They were more likely than other women to have graduated in the creative arts and design, and in media and film, and this was statistically significant.
- They were more likely to be older, and had been in the labour market longer.
- They were more likely to have dependent children living with them.
- They were more likely to come from a family with background in self-employment.

What emerges when the whole sample is taken together, though, is that women (53 per cent) were more likely than men (47 per cent) to have some experience of self-employment. This finding is significant as most research and literature has, hitherto, suggested that self-employment is a male-dominated career destination. Not only that, but there was also greater willingness among women to consider self-employment; almost 60 per cent of those who had thought about self-employment were women, compared with 43 per cent of men. A likely policy issue here is the extent to which this latent potential can be stimulated through, for example, customised support targeted at women.

**Table 3.4: Age distribution of graduates, by gender (per cent)**

| | Male | Female | All |
|---|---|---|---|
| 25 or under | 45 | 54 | 51 |
| Over 25 | 47 | 53 | 49 |
| *Total (base=)* | *302* | *351* | *653* |

*Source: IES Survey, 1998*

## Age

More than half of the graduates (51 per cent) were aged 25 years or under at the time of the survey, and 49 per cent were over 25 years old. There were more women than men in the two age groups (Table 3.4). The average (mean) age for the whole sample was about 27 years; the youngest respondent was 21 years old and the oldest, 54 years old. However, the men in the sample, were marginally older, with an average age of 27 years, compared with 26 years for women.

The proportion of younger graduates in the sample increased over the three years, from 23 per cent of the 1994 cohort to 70 per cent in 1996. This is as might be expected, and is also partly explained by the higher proportion of women in the younger age group.

Across the sample as a whole, older graduates were more likely than the younger ones to have had some experience of self-employment. Almost two-fifths (38 per cent) of the older graduates had such experience, compared with a quarter (25 per cent) of those younger. By contrast, the younger graduates were less certain of entering self-employment, with a significantly higher proportion expressing no interest in doing so (Table 3.5).

## Ethnicity

The sample was overwhelmingly white. Of those prepared to provide information about their ethnic origin, only six per cent were from ethnic minority groups. This was made up of about two per cent Indian, and about one per cent Pakistani. The remaining three per cent comprised graduates who described themselves variously as black, Chinese and other Asian, and of mixed ethnic origin. The proportion of ethnic minorities in the

**Table 3.5: Graduates considering career options, by age group (per cent)**

| | Self-employed | Considered self-employment | Not interested | N= |
|---|---|---|---|---|
| 25 or under | 25 | 26 | 49 | 321 |
| Over 25 | 38 | 26 | 36 | 314 |
| *Total (base=)* | *199* | *165* | *271* | *635* |

*Source: IES Survey, 1998*

**Table 3.6: Graduates considering career options, by ethnic group (per cent)**

| | Self-employed | Considered self-employment | Not interested | N= |
|---|---|---|---|---|
| Whites | 32 | 25 | 43 | 588 |
| Ethnic minorities | (23) | (31) | (46) | 35 |
| *Total (base=)* | *194* | *160* | *269* | *623* |

*Source: IES Survey, 1998*

sample was smaller than in the population of domiciled students studying full-time in higher education as a whole (about 12.5 per cent in 1994 and 14.4 per cent in 1996). This may be the result of two influencing factors — the type of HEIs, as well as the departments/courses from which our sample was drawn. It is known, for example, that ethnic minority students are concentrated in some HEIs, particularly the new universities in London and the Midlands. Our sample contained only one such HEI. There are also concentrations of ethnic minorities in particular subjects, such as business and administrative studies (Connor *et al.*, 1996a). These courses were not reflected to any great extent in our sample.

There were more white and ethnic minority women than men in the sample as a whole (54 per cent and 46 per cent, respectively). However, within each gender group the distribution of white and ethnic minorities was, remarkably, identical (94 per cent and six per cent respectively). There were slightly more white and ethnic minority graduates among the younger age group (51 per cent), compared with those older (49 per cent).

In terms of their employment intentions, more whites than ethnic minorities had some experience of self-employment. However, higher proportions ethnic minority graduates than whites indicated they had thought about self-employment; and slightly more ethnic minorities than whites also had no interest in self-employment (Table 3.6).

These findings may well have implications for policy, in terms of support for ethnic minority graduates contemplating self-employment. However, it is worth exercising caution when interpreting the data presented on ethnic minorities in the sample, as the numbers involved are small.

## 3.2 Degree study

### Course

The respondents graduated from a wide range of courses. For ease of analysis, we have condensed the range of courses into five principal categories. The full range of courses mentioned is shown in Appendix A, Table A1.

The degree courses from which the respondents graduated reflected the sample from which they were drawn. They were predominantly in the creative arts and design courses, and in the new technologies (such as electronic engineering and computer sciences). Together, they accounted for more than three-quarters of the sample. Almost one in ten graduated with degrees in the sciences (including biological and physical sciences and pharmacy), and about one in twenty respondents, the social sciences and other arts and humanities.

The distribution of the subjects of study was almost uniform for the three cohorts. However, the 1996 graduates were marginally more likely to have studied creative arts and design, and 1995 graduates, the new technologies. Older graduates (59 per cent) were more likely than those younger (51 per cent) to have graduated with degrees in creative arts and design, whilst younger graduates (26 per cent) were more likely than those older (18 per cent) to have graduated with degrees in the new technologies.

There was variation in the subject of study when the data was analysed according to gender. The women in the sample had predominantly taken courses in the creative arts and design. But the men were concentrated in that field as well as the new technologies. Across the other major subject groups, slightly more women than men studied sciences and courses in media and film (Table 3.7).

As might be expected, more than half of those who were self-employed graduated with arts and design degrees. By contrast, graduates who studied the new technologies were least likely to express an interest in self-employment; more than two-thirds (68 per cent) of new technology graduates said they were not interested in self-employment. In terms of future employment intention, the latent demand for self-employment is more likely to be among those graduating from the courses where self-employment is already well established, *ie* in the creative arts

**Table 3.7: Subject of study of graduates, by gender (per cent)**

| | Male | Female | All |
|---|---|---|---|
| Creative Arts and Design | 42 | 67 | 55 |
| Media and Film | 6 | 9 | 8 |
| New Technologies | 39 | 7 | 22 |
| Sciences and Engineering* | 7 | 12 | 9 |
| Arts/Humanities/Social Sciences** | 5 | 4 | 4 |
| Others | 1 | 3 | 2 |
| *Total (base=)* | *302* | *347* | *649* |

* Includes Pharmacy
** Includes Business Studies and Marketing

*Source: IES Survey, 1998*

**Table 3.8: Graduates considering career options, by mode of study (per cent)**

| | Self-employed | Considered self-employment | Not interested | All |
|---|---|---|---|---|
| Full-time study | 34 | 27 | 39 | 88 |
| *Sandwich courses* | *16* | *18* | *66* | *12* |
| *Total (base=)* | *200* | *165* | *270* | *635* |

*Source: IES Survey, 1998*

and design; two-thirds (67 per cent) of graduates who had considered self-employment as a possible career destination studied those courses.

## Mode of study

Almost nine out of every ten of the graduates in the sample (88 per cent) studied full time at university. The remaining 12 per cent did sandwich courses. It is surprising that none of the graduates in the sample studied part time. But this may reflect both the type of institution from which the sample was drawn, and the type of course studied by the graduates themselves. There was no difference, in the mode of study, between men and women. However, one in seven of the younger graduates (14 per cent) did a sandwich course, compared with one out of every ten of the older graduates.

The graduates who studied full time were fairly well represented across the principal groups, in terms of employment intentions, with about two-fifths (39 per cent) indicating they had no interest in self-employment. By comparison, a substantial majority (66 per cent) of those who took sandwich courses expressed no interest in becoming self-employed (Table 3.8). This may partly be explained by the higher proportion of younger graduates who took sandwich courses, but could also be explained by a range of other factors beyond those we have examined. These may include, for example, the vocational orientation of the sandwich course students.

## Degree class

Almost three-fifths (57 per cent) of the graduates gained an upper second or first class degree. This was almost ten per cent higher than those achieving the same level of qualification in the higher education graduate population of the UK for those years (48 per cent). Another third (34 per cent) gained a lower second. The 1995 graduates were the most 'successful' of the three cohorts, with more than three out of every five obtaining the higher level qualifications (Table 3.9).

In terms of gender, men were almost twice as likely as women to gain a first; 63 per cent of those graduating with first class degrees were men. However, more women than men were

**Table 3.9: Degree class of graduates, by cohort (per cent)**

| | 1994 | 1995 | 1996 | Others | All |
|---|---|---|---|---|---|
| First class | 9 | 11 | 8 | 6 | 9 |
| Upper second | 44 | 51 | 46 | 55 | 48 |
| Lower second | 36 | 31 | 38 | 28 | 35 |
| Third class | 8 | 7 | 7 | 4 | 7 |
| Others | 3 | 1 | (..) | 8 | 2 |
| *Total (base=)* | *162* | *208* | *227* | *51* | *648* |

*(..) Less than one per cent*

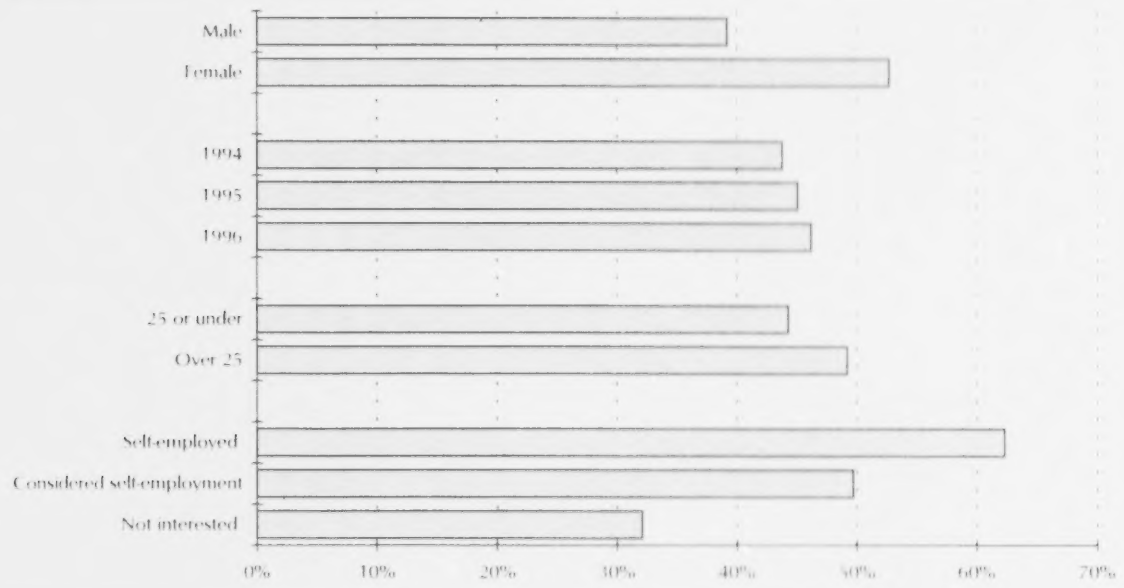
*Source: IES Survey, 1998*

successful at the two next qualification levels. The older students also tended to have better degree passes; 60 per cent gained a first or upper second, compared with 54 per cent of younger graduates. There was only little difference between the graduates, according to their employment intentions. Slightly more of those with experience of self-employment, and those who had thought about it, obtained better degree classes than those who expressed no interest in self-employment.

## 3.3 Family background

More than two-fifths of the graduates (47 per cent) had family relations who were/had been self-employed or had their own business. There was no difference between the three cohort groups. The difference between the age groups was also slight (49 per cent of those over 25 years old, compared with 44 per

**Figure 3.3: Graduates with self-employed family members (per cent)**




*Source: IES Survey, 1998*

cent of those under 25 years old). However, women (53 per cent) were far more likely than the men (39 per cent) to have a self-employed relative. The difference was statistically significant. A family background in self-employment also appeared to be a significant factor influencing a labour market status of self-employment. More than three out of every five (63 per cent) of graduates with experience of self-employment had such family background. By comparison half (50 per cent) of those who had considered self-employment at some point, and only about a third (32 per cent) of those with no interest in self-employment, were from such a family. The difference among these latter groups was statistically significant (see Figure 3.3).

Male parents were the family member most likely to be self-employed or to own a business. More than half (53 per cent) of graduates with a family background in self-employment cited male parents as the relevant relation. About one in seven (14 per cent) cited both parents, and one in ten, a sibling to be self-employed or running their own business.

# 4. Career Patterns

One of the main aims of the study was to investigate the early employment histories of self-employed graduates in order to establish if any variations emerge in their career patterns. This can best be done by describing their experience as part of the overall pattern of graduates' careers. This chapter looks in some detail at the different kinds of activities which might have been undertaken at the different stages in an individual's career, such as periods of post-graduate study, unemployment *etc*. The chapter focuses on the information provided by the graduates about activities they were engaged in at various intervals following graduation. In the questionnaire, graduates were asked to categorise their labour market status at each point in time under five broad headings:

- **working as employees**, *ie* in full-time and part-time jobs, with no distinction made between permanent and temporary employment
- **self-employment** — *ie* any of freelance work; self-employment as a sole trader or in partnership; working on contract where individuals take care of their tax; working in a business which they have started on their own or with business partners
- **further study** — *ie* full- or part-time study or continuing education lasting for more than a week and leading to a qualification
- **unemployed** — *ie* not in work but seeking employment; and
- **not available for employment** — *ie* neither in employment nor in further study, and not looking for any of the above.

This information allowed a sequential picture of the career stages of the graduates, and the movement between those stages over the period since graduation, to be built up. For the 1996 cohort, this represented a period of two years, for the 1995 graduates three years, and for the 1994 cohort, four years. We look first at their initial destination, *ie* one year after graduation, and subsequent destinations at yearly intervals after that. This is the approach taken in previous IES research on graduates' careers (Connor and Pollard (1996); Connor *et al.* (1997); La Valle *et al.* (1997)).

## 4.1 Graduate destinations

### 4.1.1 Previous research

Although graduates move on to very diverse destinations after graduation, the most reliable data on graduate employment in the UK is that produced by HESA which relate to their initial destination. We have already alluded to the main drawback of the FDS; that they provide a snapshot of the employment situation of graduates only six months after graduation. It is known that the length of time spent in the labour market can have considerable influence on the employment circumstances of recent graduates. Connor and Pollard (1996) have noted that the trend in recent years has been for fewer graduates to enter permanent employment in the first few months after graduation. Instead, more of them are experiencing initial unemployment or take temporary work, or going on to postgraduate study in order to improve their employment chances. Because of this trend, they have suggested that the destination after just six months is becoming a less reliable indicator of labour market 'success'.

Beyond the FDS, research evidence on early graduate destinations is patchy or relates only to particular groups of graduates. For example, IES has recently completed a number of studies which have looked, among other things, at the choice of graduate destinations, and the underlying reasons for their choice. Thus, Connor *et al.* (1997), in follow-up studies of Sussex University graduates from the early 1990s found that the proportion of graduates in employment increased over time, whilst the proportion in further study or unemployed fell. Other longitudinal studies (*eg* a large Scottish graduate study, 1992-96) show similar results.

Of particular relevance to this research, however, are the results from a study by La Valle *et al.* (1997) of the career patterns of three cohorts (1993, 1994 and 1995) of art and design graduates from the London Institute. These showed a consistent pattern that the longer graduates were in the labour market, the more likely they were to be in permanent employment or move into self-employment (in this case freelance work), as part of a range of post-graduation activities; and although the level of unemployment among art and design graduates was relatively high, this declined over time as graduates combined periods of unemployment with a range of other productive career-related activity. This pattern is consistent with data from the Labour Force Survey (LFS Spring 1998) on people with higher education qualifications, which show that the proportion of graduates who are employees is consistently high at over 80 per cent. The proportion in self-employment also increases over time, while the proportion in unemployment falls (Table 4.1).

**Table 4.1: Labour market status of people with higher education qualifications, over time**

| Years since graduating | Employees of all types | | Self-employed | | ILO unemployed | | Inactive | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | N | % | N | % | N | % | N | % | N |
| 2 or less | 411,000 | 86.3 | 15,000 | 3.1 | 33,000 | 7.0 | 17,000 | 3.6 | 476,000 |
| 3 or 4 | 322,000 | 87.0 | 16,000 | 4.4 | 11,000 | 3.0 | 21,000 | 5.7 | 371,000 |
| 5 or 6 | 268,000 | 85.8 | 16,000 | 5.1 | *** | *** | 19,000 | 6.2 | 312,000 |
| 7 or 8 | 272,000 | 86.0 | 19,000 | 6.1 | *** | *** | 21,000 | 6.5 | 316,000 |
| 9 or 10 | 313,000 | 83.3 | 31,000 | 8.3 | 11,000 | 2.8 | 21,000 | 5.6 | 376,000 |
| > 10 | 3,271,000 | 74.5 | 601,000 | 13.7 | 101,000 | 2.3 | 418,000 | 9.5 | 4,390,000 |
| *Total* | *4,857,000* | *77.8* | *698,000* | *11.2* | *169,000* | *2.7* | *517,000* | *8.3* | *6,241,000* |

*** Estimated numbers too small to be reliable

*Source: LFS Spring 1998 Quarter*

Do the graduates in our survey follow this pattern? The issue is particularly important, not least in providing an indication of the pattern of possible destinations for different groups of graduates. Thus, are there differences between men and women, or between different subject disciplines? We now turn to the survey data.

### 4.1.2 Initial destination (one year later)

For the sample as a whole, two-thirds of the 585 graduates (67 per cent) were in employment as employees, a year after graduating. About one out of every eight (12 per cent) was in self-employment of one kind or another. An identical proportion were studying for a higher academic qualification or towards one relating to their occupation. However, fewer than one in ten was out of work but seeking employment, whilst two per cent were not available for work or further study.

The experiences of the three cohorts differed in some respects, as Table 4.2 shows. The 1994 graduates were the least 'successful', albeit only slightly, in the labour market. The proportion of this cohort in employment was slightly lower, while the level of

**Table 4.2: One year after graduation: the employment status of graduates (per cent)**

| | 1994 | 1995 | 1996 | All |
|---|---|---|---|---|
| Working as employee | 66 | 67 | 67 | 67 |
| Self-employed | 11 | 13 | 13 | 12 |
| Further study | 12 | 11 | 12 | 12 |
| Not available | 3 | 3 | 1 | 2 |
| Unemployed | 9 | 5 | 7 | 7 |
| *Total (base=)* | *160* | *202* | *223* | *585* |

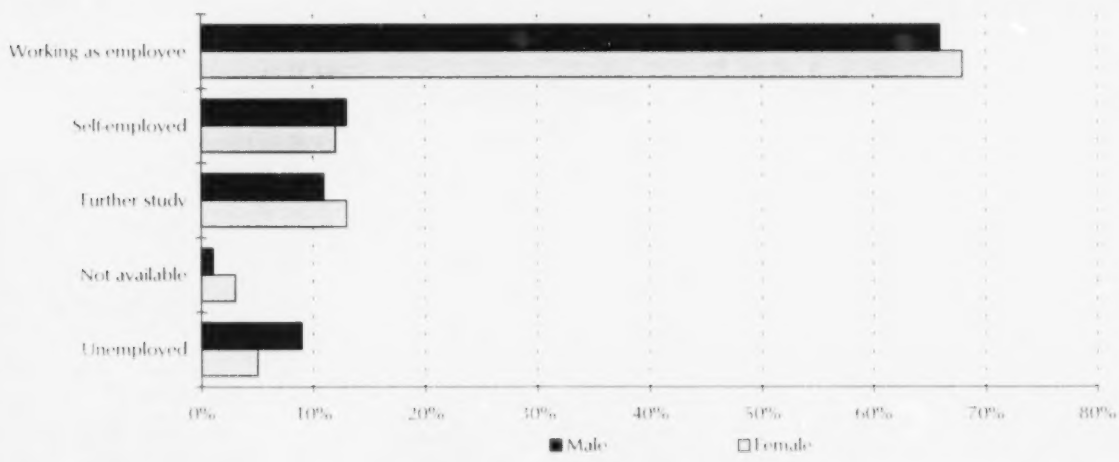
*Source: IES Survey, 1998*

unemployment was higher, compared with the other cohorts. This probably relates to the high levels of unemployment among graduates during the early 1990s and the more limited employment opportunities available at that time. Although graduate unemployment peaked in 1993, the improvement in their employment prospects following the economic upturn was yet to be fully felt. Unemployment for the sample was lowest in 1995 but rose slightly, to seven per cent, in 1996. The proportion of graduates in self-employment one year after graduating increased from 11 per cent in 1994 to 13 per cent in 1995 and 1996. The proportion of graduates in further study increased from 11 per cent of the older cohorts, to 12 per cent for those who graduated in 1996. At the same time the proportion of graduates not available for work fell to only one per cent of the youngest cohort group. This would suggest that not only is the proportion of graduates moving into employment rising, but fewer are taking time out. It is not certain the extent to which this is attributable to the rising cost to individuals of participation in higher education. Where this leads to debt at the end of a degree study, it might be expected to discourage graduates from taking time out.

One year after graduation, women were slightly more 'successful' than men in the labour market. There were more women than men in employment; more as employees, but marginally less so as self-employed. At the same time more of them than men were studying for additional qualifications. On the other hand, the level of unemployment among men was much higher; almost one in ten men (nine per cent) was unemployed, compared with one in twenty women (Figure 4.1).

In terms of age, younger graduates (*ie* aged 25 and under) were more 'successful' than their older counterparts a year after graduation. More than nine out of every ten (94 per cent) of

**Figure 4.1: One year after graduation: the employment status of men and women**




*Source: IES Survey, 1998*

**Table 4.3: One year after graduation: employment status, by subject (per cent)**

| | Employee | Self-Employed | Further Study | Not Available | Unemployed | (N=) |
|---|---|---|---|---|---|---|
| Arts and Design | 62 | 12 | 15 | 2 | 9 | 326 |
| Media/Film | 66 | 18 | 2 | 6 | 8 | 50 |
| New technology | 77 | 8 | 11 | 1 | 4 | 133 |
| Sciences | 79 | 15 | 6 | 0 | 0 | 52 |
| Art & Social Science | (55) | (36) | (9) | (0) | (0) | 11 |
| Others | (43) | (29) | (29) | (0) | (0) | 7 |
| *All subjects* | *67* | *12* | *12* | *2* | *7* | *579* |

*Source: IES Survey, 1998*

younger graduates were in employment or further study, compared with 88 per cent of older ones. The latter appeared to experience more adverse labour market conditions, and were almost twice as likely as those younger to be unemployed.

There was more variation by subject, as would be expected , and as shown by other research on graduate destinations. Those who graduated in the sciences were most 'successful', with all in either employment or further study (Table 4.3). Although their numbers were comparatively small, the level of self-employment was highest among graduates who took degrees in subjects relating to media and film. Almost one in five of these was self-employed one year after entering the labour market. Relatively high levels of self-employment were also evident among those graduating in the sciences (15 per cent), and slightly less so, in creative arts and design. Past research (see La Valle *et al.*, 1997) has shown that self-employment is more common among art and design graduates, but is less so among science graduates. Our finding here suggests there may be greater willingness on the part of new graduates, irrespective of their subject of study, to include self-employment in their portfolio of labour market activities.

The survey also allowed us to explore self-employed graduates' early experiences, and compare them with those who were not self-employed. Table 4.4 shows that a high proportion of graduates who were self-employed at the time of the survey experienced other labour market activity one year after they

**Table 4.4: One year after graduation: employment status, by career plans (per cent)**

| | Employee | Self-Employed | Further Study | Not Available | Unemployed | N= |
|---|---|---|---|---|---|---|
| Self-employed | 36 | 45 | 11 | 1 | 6 | 159 |
| Considered self-employment | 72 | 1 | 12 | 3 | 13 | 152 |
| Not interested | 83 | – | 11 | 2 | 4 | 258 |

*Source: IES Survey, 1998*

**Table 4.5: One year after graduation: employment status, by class of degree (per cent)**

| | Employee | Self-Employed | Further Study | Not Available | Unemployed | N= |
|---|---|---|---|---|---|---|
| First class | 59 | 17 | 20 | 0 | 4 | 54 |
| Upper second | 65 | 13 | 13 | 3 | 6 | 272 |
| Lower second | 71 | 9 | 10 | 2 | 8 | 206 |
| Third class | (71) | (10) | (5) | (2) | (12) | 42 |

*Source: IES Survey, 1998*

graduated with their first degrees. Almost half were in employment as employees or studying for a further qualification. Not surprisingly, none of those who indicated they had no interest in self-employment whatever at the time of graduation, were self-employed. But almost the same was true of those who indicated they had thought of becoming self-employed either at the time they started their degree course or at the time of graduation.

There was a slight association between the class of degree obtained and success in the labour market, *ie* the higher the degree class the more 'successful' was the graduate. Whilst the proportion of graduates in employment decreased higher up the scale, this was more than compensated for by the proportion in further study. Not surprisingly, first class degree graduates had the highest proportion of graduates studying for a further qualification one year after graduating. But they also had the highest level of self-employment. On the other hand, unemployment was inversely correlated with the level of qualification. Graduates who obtained third class degrees were three times as likely as those with a first to be unemployed (Table 4.5). It is necessary to exercise caution here though, particularly as the numbers of those with first and third class degrees were relatively small compared with those upper and lower second.

### 4.1.3 Two years on

Two years is the longest period for which the employment destinations for all the cohorts in the sample could be studied. At the end of two years, there was improvement all round in the labour market situation of graduates. The oldest cohort (1994), however, was still less 'successful', in terms of the proportion in employment or further study, and unemployment remained highest for 1994 graduates. For the sample as a whole, there was an increase in the level of employment, but a decrease in the proportion of those in further study, reflecting national trends in movement from further study. The level of unemployment also fell, again reflecting national trends. With the exception of the 1995 cohort, there was a fairly even distribution from further study into employment as employees and self-employment

**Table 4.6: Two years after graduation: the employment status of graduates (per cent)**

| | 1994 | 1995 | 1996 | All |
|---|---|---|---|---|
| Working as employee | 69 | 71 | 72 | 71 |
| Self-employed | 14 | 13 | 18 | 15 |
| Further study | 7 | 9 | 6 | 7 |
| Not available | 1 | 3 | 1 | 2 |
| Unemployed | 8 | 4 | 4 | 5 |
| *Total (base=)* | *160* | *201* | *221* | *582* |

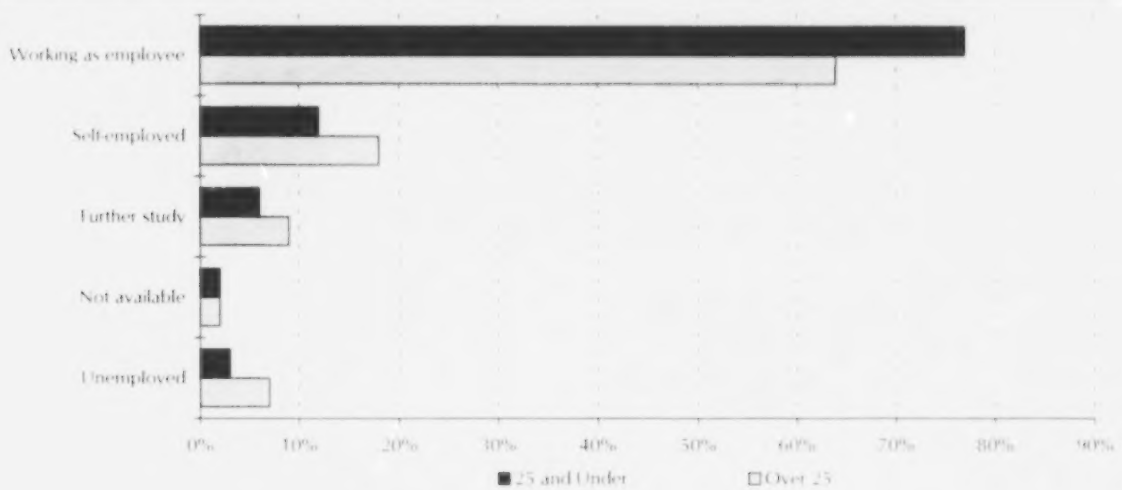
*Source: IES Survey, 1998*

(Table 4.6). The 1996 cohort had the highest level of self-employment, and recorded a larger increase from the previous year than the other cohort groups by jumping from 13 to 18 per cent (compare Table 4.2).

When graduates were grouped by age, the level of self-employment after two years was still higher among the younger group. Just under one-fifth (18 per cent) of younger graduates were self-employed, compared with 13 per cent of older graduates two years after graduation. There was only slight variation between men and women. The level of unemployment fell for men, from nine per cent to five per cent, almost the same as for women (four per cent). The level of employment increased for both men and women, but with a larger increase in the level of men in self-employment, such that at the end of two years in the labour market, 17 per cent of men were self-employed compared with 14 per cent of women (See Figures 4.2 and 4.3).

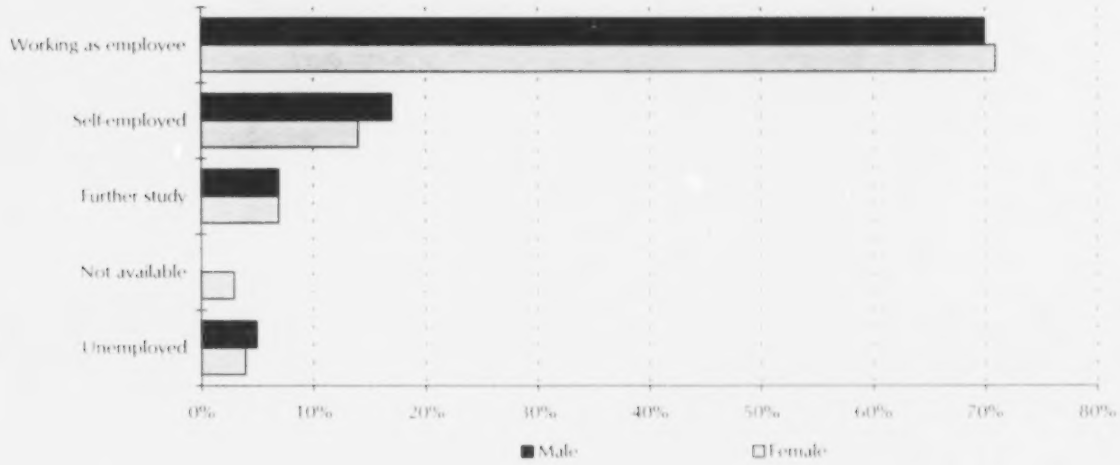
In terms of subject of study, the greatest change was among creative arts and design graduates. The proportions either in

**Figure 4.2: Two years after graduation: the employment status of graduates, by age**




*Source: IES Survey, 1998*

**Figure 4.3: Two years after graduation: the employment status of men and women**




*Source: IES Survey, 1998*

further study or unemployed fell sharply (by five and four per cent, respectively). These were compensated for by identical increases in the proportion of those in employment as employees (four per cent) or self-employed (five per cent). Self-employment was still highest, though, among media and film graduates, one-fifth (20 per cent) of whom were self-employed at the end of two years. However, the level of self-employment among science graduates fell, from 15 per cent after one year to 11 per cent after two years.

The largest changes in the labour market status of graduates related to the level of qualification, *ie* the degree class with which they graduated. Table 4.7 shows the employment situation of graduates with different level qualifications.

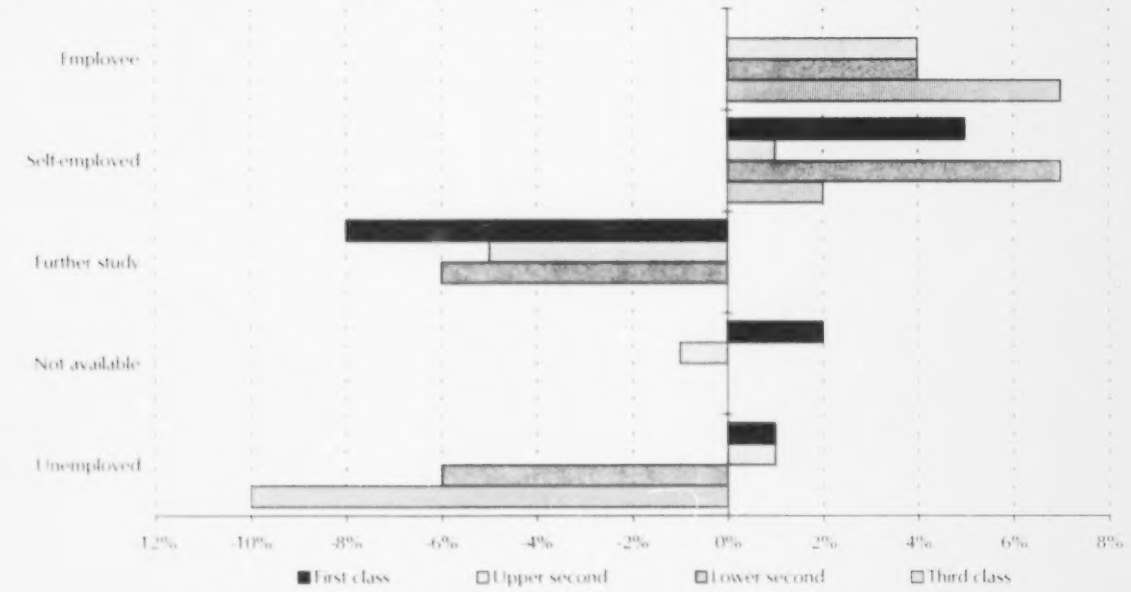
The proportion of employee graduates with a first class degree remained unchanged. But the proportion in further study fell, from 20 to 12 per cent after two years. The proportion of graduates in further study with an upper second declined from thirteen to eight per cent, whilst the proportion of graduate employees increased by four per cent. There was, similarly, a decline in the proportion of graduates with a third class degree

**Table 4.7: Employment status two years after graduation, by class of degree (per cent)**

| | Employee | Self-Employed | Further Study | Not Available | Unemployed | N= |
|---|---|---|---|---|---|---|
| First class | 59 | 22 | 12 | 2 | 5 | 59 |
| Upper second | 69 | 14 | 8 | 2 | 7 | 273 |
| Lower second | 75 | 16 | 4 | 2 | 2 | 204 |
| Third class | (78) | (12) | (5) | (2) | (2) | 41 |

*Source: IES Survey, 1998*

**Figure 4.4: Two years on: changes in employment status, by degree class**




*Source: Source: IES Survey, 1998*

in further study. Significantly, the level of unemployment among this group fell to two per cent, while the level in employment as employees increased from 71 to 75 per cent, and self-employment from nine to sixteen per cent.

Figure 4.4 shows the changes in the status of graduates after two years in the labour market. There was greater movement from both further study and unemployment, but into different destinations. For graduates with first class and lower second degrees the movement was largely from further study into self-employment; whilst for those graduating with a third, it was mainly from unemployment into employment as employees.

### 4.1.4 Three years on

Only the 1994 and 1995 graduates had been out in the labour market for at least three years. Both cohorts, though, had established almost identical patterns of labour market experience. Three years on, their employment circumstances were as follows:

- at least nine out of ten were in employment. Almost three-quarters (74 per cent) of 1994 graduates were employees, an increase of eight per cent from the one year stage. For 1995 graduates there was a much lower increase (of four per cent), taking the proportion of employees to 71 per cent of the cohort
- the level of self-employment had increased for both cohorts by six per cent, to 17 per cent of 1994 graduates and 19 per cent of 1995 graduates

- the proportion of graduates in further study had fallen by seven percentage points among the 1994 cohort and six per cent for the 1995 cohort
- unemployment was at its lowest for the oldest cohort; only three per cent of 1994 graduates were unemployed, down six percentage points from three years earlier. For 1995 graduates unemployment had fallen only marginally (by one per cent) to four per cent.

After three years there were some variations in the experience of different groups of graduates. The labour market circumstances of men and women were identical in almost all respects. Seventy per cent of men and women were in employment as employees. The level of unemployment was similar, at six per cent for both men and women, although this represented a slight increase for women, but a more significant fall for men from three years earlier. Slightly more men than women were in self-employment (18 per cent and 16 per cent, respectively), but more women than men were in further study (eight per cent women and four per cent men).

The differences between mature and young graduates were less accentuated in some areas than others. For example, the proportion in employment as employees increased by six per cent in each case, to 78 per cent of young graduates and 69 per cent of mature graduates. Unemployment also fell by four per cent in each case, to five per cent of mature graduates and one per cent of young graduates. However, substantially more mature graduates were in self-employment. After three years, one-fifth (20 per cent) of mature graduates were self-employed, against 15 per cent of younger graduates. Compared with the situation three years earlier, the level of self-employment had increased by seven per cent for mature graduates against four per cent for young graduates.

In terms of subject, creative art and design graduates were the most 'successful' at this stage. Seventy per cent were in employment as employees, an increase of eight per cent from three years earlier. The proportion in unemployment had fallen from nine per cent to only three per cent; and whilst the proportion in further study had fallen from 15 per cent to eight per cent, the level of self-employment had risen by almost equal amount to about one-fifth (19 per cent). Degree class was less influential in labour market success three years on. However, around one-fifth or more of those with an upper second (21 per cent) and a lower second (19 per cent) were self-employed. But this could reflect the influence of the degree course from which they graduated. Unemployment had also reduced considerably for all graduates.

**Table 4.8: Current employment status of graduates (per cent)**

| | 1994 | 1995 | 1996 | All |
|---|---|---|---|---|
| Working as employee | 73 | 71 | 72 | 72 |
| Self-employed | 21 | 19 | 18 | 19 |
| Further study | 4 | 5 | 6 | 5 |
| Not available | 0 | 1 | 1 | 1 |
| Unemployed | 2 | 4 | 5 | 3 |
| *Total (base=)* | *159* | *204* | *221* | *584* |

*Source: IES Survey, 1998*

### 4.1.5 Current status

At the time of the survey (September-October 1998), the oldest cohort of graduates had been out in the labour market for four years and the youngest, two years.

Just under three-quarters of the graduates (72 per cent) were working as employees, an increase of five per cent on the one year stage. Almost one out of every five (19 per cent) was self-employed, an increase of seven percentage points. A further five per cent were in further study. Only three per cent were unemployed (Table 4.8).

The survey evidence on current status shows rising levels of self-employment among each cohort of graduates over time. Looking at the time stages, the likelihood of becoming self-employed increases the longer the graduates are out in the labour market. For the oldest cohort, for example, the level of self-employment increased by ten percentage points over the three year period from 1995 to 1998. For 1995 graduates there was an increase of six per cent over two years, whilst for the youngest cohort the increase was five per cent over only one year.

The survey results show clearly that the graduates included in this sample were more likely to become self-employed than is the case for graduates in the population as a whole over the same time period (compare the level of self-employment in Table 4.1). More importantly, the evidence also suggests that self-employment is becoming an important career destination for particular groups of graduates. Not only that, but the decision to enter self-employment is being made at an earlier stage in the careers of graduates. We found evidence of this in our qualitative interviews with self-employed graduates; to the extent that sometimes this was even likely to influence or determine which subjects or course to study, and at which university. As one such respondent put it:

> *'I literally set out to study something that I could run a business in. It was certainly always at the back of my mind that's what I wanted to do. [So] I looked at a lot of similar art and design based courses and I*

*chose technical illustration because it appeared to be (a) the most profitable and (b) a vocation, a professional skill that was very much in demand. I basically went in search of the best and I found that in (named) university.'*

Another respondent suggested she had her chosen course marked from a very early age. She called it her 'destiny', and knew at the time she was doing her 'A' levels that a foundation course could get her into (named college) for the degree she needed for her career in self-employment.

By the same token, however, our findings also suggest that graduates without the inclination to enter self-employment, are likely to have taken decisions at a very early stage in their career not to do so at least in the short term. More particularly, intention does not easily translate to deed, as the evidence on the level of self-employment among graduates who had considered it as a possible career suggests. This latter finding is important for policy, in terms of how such aspiration can be nurtured.

## 4.2 Further study

The survey evidence presented in Tables 4.2 to 4.8 suggests that further study was important at every stage in the careers of the three cohorts. The movement from further study was almost equally into employment as employee and self-employment. For the latter, this suggests it is sometimes important for them to undertake postgraduate studies in order to improve the occupational and technical skills they require in self-employment as well as for being employees.

About a quarter (24 per cent) of the sample indicated they had taken part in further study since they graduated with their first degree. About one in ten of these graduates (nine per cent) had completed or were still studying for a PhD, and one-third for a Masters degree. For almost two out of every five (38 per cent) the end product was a postgraduate qualification of one type or another. About one-fifth (19 per cent) had obtained a technical or occupation-specific qualification. However, about one in six (16 per cent) studied for a sub-degree qualification.

The most popular subjects of further study, taken by 31 per cent of respondents, related to art and design. The other courses of significance were information technology (13 per cent), training and education (13 per cent), and business and administrative studies (12 per cent). Two-thirds (67 per cent) of all those engaged in further study were women and one-third, men. The difference was mainly due to the higher proportion of women taking one of the several postgraduate qualifications. In particular, women predominated in art and design and education.

Additional qualifications were important for the self-employed graduates in the sample. Indeed more than a quarter (28 per

cent) of all those engaged in further study were self-employed at the one year sampling stage. For these graduates further study was an important route into self-employment. The qualitative interviews with self-employed graduates provided some evidence of this; in particular the fact that it enabled them to firm up their business ideas and, at the same time, build some initial reputation in their chosen fields. For example, one respondent, intending to pursue a self-employed career, decided to set up the business during the Masters course. The advantage of the study was that:

> *'Whilst I was able to develop my technical skills during this time, the way the course was structured gave me enough time to meet clients.'*

Another respondent reiterated the importance of acquiring technical skills during further study, but from the perspective of specialising in what she considered to be a more practical business commercially.

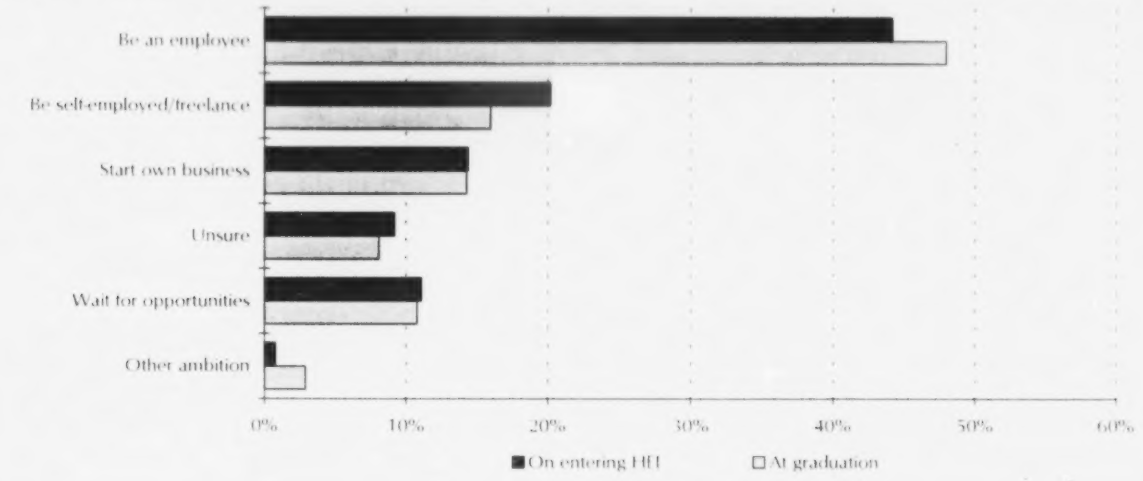
> *'I did my MA in commercial design rather than couture because I didn't think I was employable with my BA because I was too avant garde; and the stuff I was designing or whatever wasn't commercial and wouldn't sell on the high street. That's where most of the jobs are, so let's go away and do a year and a half and study commercial design.'*

## 4.3 Career aspirations and development

We have alluded to the fact that the graduates under study appear to be making their career decisions early. What is less clear, though, is the extent to which what graduates choose to do is pre-planned. Connor and Pollard (1996), in their study of Sussex University graduates, found that graduates who had thought about their careers at an earlier stage fared better in the labour market. For this study we included a number of questions to find out the extent to which the graduates had developed ideas about what they wanted to do. In order to explore the likely process, we compared graduates' aspirations when they entered higher education and at the time of graduation.

Over two-fifths of respondents (44 per cent) indicated that their aspiration at the time they started their undergraduate degree was to enter employment as employees. More than one-third (35 per cent) wanted to become self-employed or, more specifically, start their own business. Around one in five (20 per cent), however, did not have any firm ideas of what they would like to do; they were divided almost equally between those who were unsure of about what they wanted to do next, and those who said they would be happy to see what opportunities came along. By the time of their graduation, the relative positions of their career aspirations had not changed a great deal. A slightly higher proportion than before wanted to become employees, but a slightly lower proportion now wanted to enter self-employment. The proportion of those who wanted to start their own business, though, remained almost the same pre- and post-

**Figure 4.5: Career aspirations of graduates, during and after university**




*Source: IES Survey, 1998*

university. But even at the end of their time at university, one-fifth of the graduates still did not have a firm choice of career, albeit with more indicating they had some other ambition (Figure 4.5).

Whilst the differences in aspirations, during and after graduation did change much, Figure 4.4 nevertheless appears to suggest that the intention of students to go into waged employment is developed faster, but at the same time their entrepreneurial intentions declined considerably during their time in higher education.

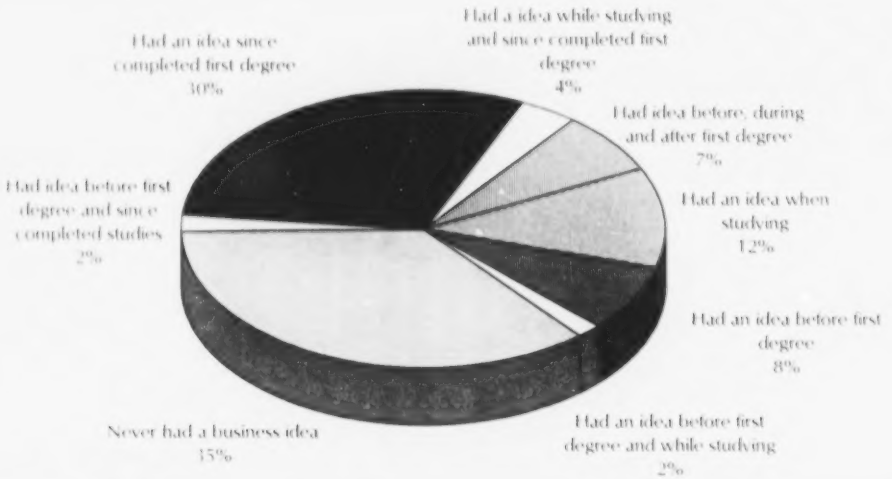
The variations between different groups of graduates were, for the most part, slight. The proportion of graduates whose aspiration at the time they entered higher education was becoming employees decreased with each successive cohort. But slightly more of the 1996 graduates said they wanted to start their own business. At the time they graduated, the gap between the cohorts for those who wanted to become employees had disappeared. A higher proportion of the 1996 graduates, though, were aspiring to start their own business.

The differences in aspirations between older graduates (over 25 years old) and those younger, were more significant at the time of graduation than before. By that time, around one-fifth (19 per cent) of older graduates wanted to start a business, compared with ten per cent of those 25 years or younger. Men were less decisive than women about what they wanted to do when they first entered university. At this time, women were more likely than men to aspire to self-employment or start a business. By the time they graduated, however, their respective positions had changed. More of the men had firmed up their ideas about their choice of career, with more of them, for example, seeking to start their own business.

Given that a relatively high proportion of graduates had aspirations to become self-employed or start their own business, we were interested in this study to examine the extent to which that aspiration was backed by a more specific intent to do so. The respondents were asked, therefore, whether they ever had a business idea they would have liked to pursue, and within specific time frames — either before they began their first degree, while they were studying for it, or since they completed the degree. In this way, it was possible to gain some insight into this aspect of their career thinking process.

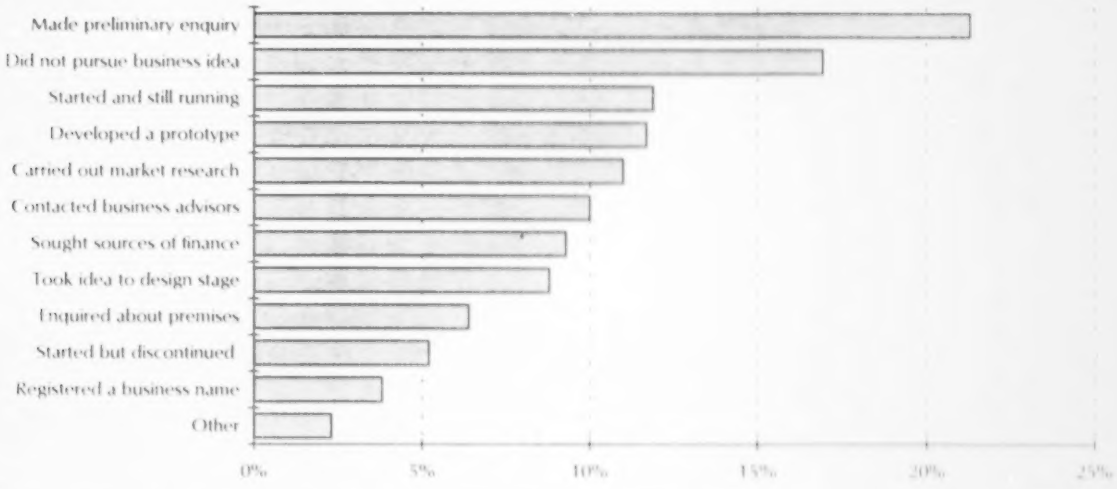
As might be expected, the development of business ideas increased with time, as graduates gained confidence and acquired skills at university. Just under one-fifth of the graduates (19 per cent) had a business idea before they embarked on their degree. In the course of their time in higher education this increased to about a quarter (24 per cent). But for the most part graduates conceived the germ of their business ideas only after their degree; this was true of two out of every five respondents (43 per cent). Just over one-third indicated they never had a business idea they would have liked to pursue. From the combination of their responses, it is possible to build up a picture of the process of developing a business idea. Figure 4.6 provides a graphical summary of that process. Almost three out of five of the graduates had a business idea at one time or other. While much of the ideas were developed after they graduated, the chart also shows that more than one-third of the graduates had a business idea at some time during their time in higher education; they included those who had a business idea before they started their degree course. It can be argued that these latter constitute a large pool with the potential to develop their business ideas further through some form of self-employment, or starting a business.

**Figure 4.6: Graduates with business ideas**


Had an idea since completed first degree 30%
Had a idea while studying and since completed first degree 4%
Had idea before, during and after first degree 7%
Had an idea when studying 12%
Had an idea before first degree 8%
Had an idea before first degree and while studying 3%
Never had a business idea 35%
Had idea before first degree and since completed studies 2%

*Source: IES Survey, 1998*

**Figure 4.7: Actions taken by graduates in pursuit of their business ideas**



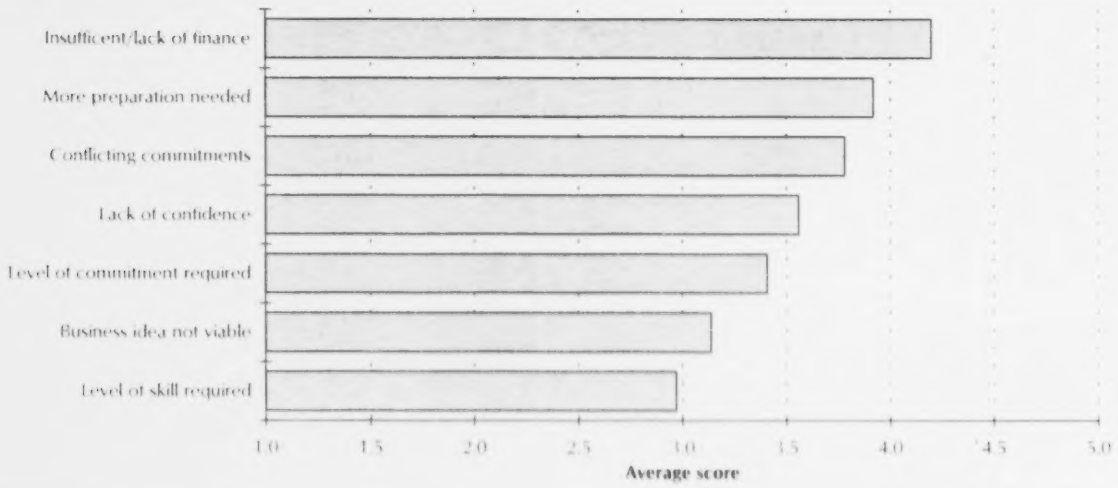

*Source: IES Survey, 1998*

The graduates pursued their business ideas to varying extents. Overall, only one in six of those who had a business idea had not pursued that idea in any way. About 12 per cent of the graduates had started a business which was still running at the time of the survey. Another five per cent had started but discontinued trading. A small proportion (four per cent) had gone as far as registering their business. Most frequently, though, the graduates had pursued their ideas only to the extent of making general preliminary enquiries. About one in ten had developed a prototype or carried out market research (see Figure 4.7).

In the survey, the graduates identified a number of important factors which they considered to have contributed to the decision to abandon their business ideas. Respondents were asked to rate the factors on a Likert scale of one to five, where 1 was perceived to be 'not at all important' and 5 'very important'. Figure 4.8 shows that finance, or the lack of it, was at the top of their consideration, with a mean score of 4.2. They also rated three other factors as important, giving them mean scores of at least 3.5 — that more preparation was needed (3.9); the business ideas conflicted with their commitments (3.8); and that they were not confident enough to pursue their business ideas. On the whole, the graduates did not believe they lacked the level of skills required to pursue their business ideas.

The extent to which that potential could be developed is one of the perennial issues involved in discussions on the problems that graduate entrepreneurs face. Gibb (1997), for example, has highlighted a number of problems which he suggests impede graduate business start-ups. These include the lack of experience, contacts, knowledge, business credibility and resources. But as Mullen (1998) has also pointed out, entrepreneurial behaviour is a learned behaviour, and the

**Figure 4.8: Rating of factors influencing decision to abandon business ideas**




*Source: IES Survey, 1998*

problems graduates experience in developing their business ideas or setting up in business, are related to imperfections in the learning environment — both internal in the classroom, and external in the wider community of entrepreneurs. The imperfections are found in the development of business tools (in the classroom) and in the use of the business tools with mentored support (in the wider community).

The question that arises from the analysis of their career patterns is, what were the dominant factors which influence self-employment? In an attempt to determine the contribution of the various drivers to movements into self-employment, we have estimated a model for self-employment, using a selected number of variables.

The probability of a graduate becoming self-employed was thought to be affected by the following characteristics: gender, age, degree course, degree class and having a self-employed family member. From the sample, 640 questionnaires were completed with this information; and a probit model was used to find out the effects of each of these variables.

The class of degree (Q3) and gender (Q38) had no significant effect — that is, when put into the model with the other variables the size of their coefficients was less than twice the standard error, and so the probability that they had no effect (a zero coefficient) was at least ten per cent.

The final model (for which we can be at least 95% confident that all included variables have non zero coefficients) contained the following variables (shown with coefficients):

| | |
|---|---|
| | SELF (1 if currently self-employed in Q6, 0 if not) |
| -0.30 | MATURE (1 if over 25, 0 if 25 or under from Q39) |
| +0.29 | FAMILY (1 if a member of the family was self-employed in Q42, 0 if not) |
| -0.88 | COURSE1 (1 if the course was in group 1 in Q2 , 0 if not) |
| -0.88 | COURSE2 (1 if the course was in group 2 in Q2 , 0 if not) |
| -1.45 | COURSE3 (1 if the course was in group 3 in Q2 , 0 if not) |
| -1.05 | COURSE6 (1 if the course was in group 6 in Q2 , 0 if not) |

Being on courses 1,2,3 and 6[1] all decrease the probability of being self-employed (3 and 6 more than 1 and 2). Being over 25 decreases the probability of being self-employed, but this effect is much less than the effect of the above courses. Having a self-employed relative or family member is the only variable which increases the chances of being self-employed, and the size of the effect is almost exactly the same effect as being 25 years or under.

[1] Course 1= Creative arts and design; Course 2= Media/Film; Course 3= New technologies; Course 6= Sciences.

# 5. Employment Experiences

As we saw in Chapter 4, and also from previous research (for example Connor and Pollard (1996) and La Valle *et al.* (1997)) graduates follow several career paths. In this chapter we focus on the employment experiences of the graduates in the sample. We examine first the characteristics of the initial and current jobs of those graduates in our survey who have some experience of working as an employee.

## How many had been an employee?

The majority of the sample had been an employee at some point. In total, 82 per cent had some experience of employment. However, those who were or had been self-employed at some point in their post-graduation career were less likely to report ever being an employee. Only six out of ten of graduates with experience of self-employment had been an employee at some time since they graduated, compared with nine out of ten other graduates.

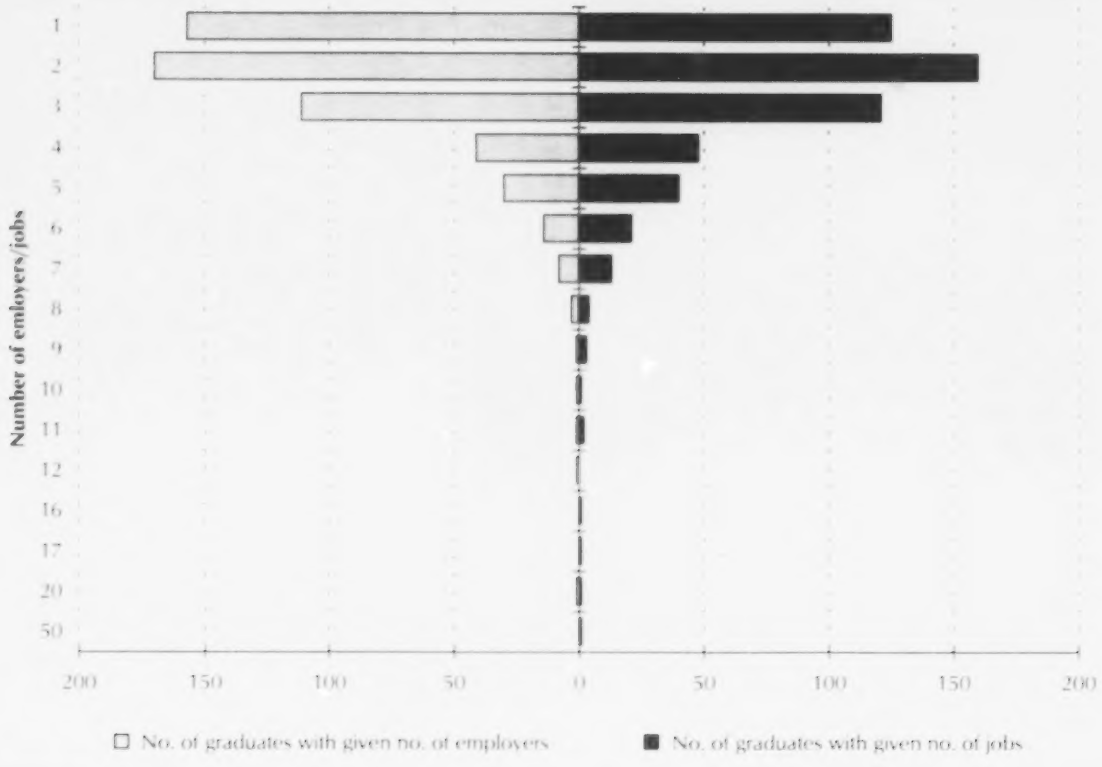
Younger graduates were slightly more likely to be in employment as employees. There was very little difference when the data was analysed according to gender and cohort (Table 5.1).

**Table 5.1 Graduates with experience of being an employee, by characteristic**

| | % |
|---|---|
| Self-employed at some point | 60 |
| Had thought about self-employment | 89 |
| No interest | 95 |
| Under 25 | 86 |
| 25 or over | 79 |
| Male | 82 |
| Female | 84 |
| 1994 graduates | 88 |
| 1995 graduates | 85 |
| 1996 graduates | 84 |

*Source: IES Survey 1998*

**Figure 5.1: Number of jobs and employers since graduating**




*Source: IES Survey 1998*

### How many jobs and employers had they had?

Our sample confirmed previous research which showed that job changes are now a feature of graduate employment. However, the analysis shows that there are only a few graduates who have had several employers or worked in many different capacities. On the whole, as Figure 5.1 shows, one or two different jobs, with one or two different employers was the norm.

Three-quarters of the graduates who had been in employment, reported they had had between one and three jobs since graduation. At the other extreme, one per cent reported having had ten jobs or more.

Twenty-nine per cent of graduate employees and ex-employees had only one employer on their CV. One in three (33 per cent) had worked for two different employers and one-fifth, for three employers. This meant that overall, 81 per cent of graduate employees had three or fewer employers since they graduated.

Although those with a history of self-employment were less likely to have been an employee, self-employed graduates who had previously worked as employees were more likely to have changed jobs and employers with greater frequency (see Figure 5.2). This raises a question about whether those graduates were

**Figure 5.2: Number of jobs and employers by self-employment history**

*Source: IES Survey 1998*

driven into self-employment because of limited career opportunities in organisations, or whether self-employment was part of a more fractured career pattern for them.

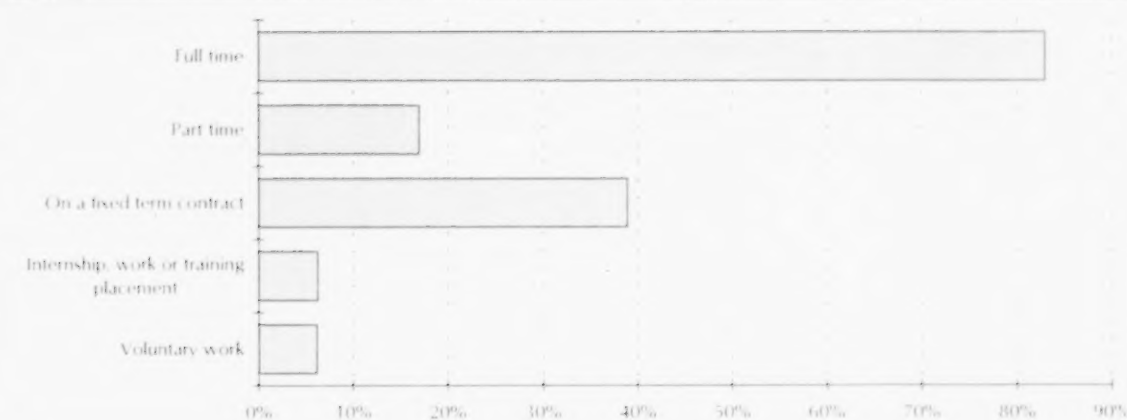
A similar analysis of the age and cohort breakdowns appeared to reflect an element of time or experience, but found no differences between male and female graduates.

## 5.1 First job after graduation

### Conditions of employment

The majority of first jobs were full time, although more than one-third of the graduates in the sample entered employment on a fixed-term contract (Figure 5.3). These results are similar to those reported for a wider sample of graduates in a recent IES study (Pearson *et al.*, 1999).

**Figure 5.3: Characteristics of first job**




*Source: IES Survey 1998*

**Table 5.2: Characteristics of first job (%)**

| | Full time | Part time | Fixed term contract | Internship, work or training placement | Voluntary work |
|---|---|---|---|---|---|
| Self-employed at some point | 72.8* | 27.2* | 44.0 | 11.8 | 9.0 |
| Had thought about self-employment | 81.2* | 18.8* | 45.0 | 5.7 | 7.6 |
| No interest | 88.8* | 11.2* | 32.7 | 4.2 | 3.5 |
| Under 25 | 80.7 | 19.3 | 34.5 | 4.1 | 5.6 |
| 25 or over | 85.5 | 14.5 | 44.2 | 9.0 | 6.7 |
| Male | 87.9* | 12.1* | 37.3 | 6.3 | 4.2 |
| Female | 78.8* | 21.2* | 40.4 | 6.2 | 7.7 |
| 1994 graduates | 84.9 | 15.1 | 38.9 | 8.1 | 5.8 |
| 1995 graduates | 84.0 | 16.0 | 35.5 | 3.1 | 5.9 |
| 1996 graduates | 81.3 | 18.7 | 40.9 | 7.3 | 4.6 |

* = Statistically significant result

*Source: IES Survey 1998*

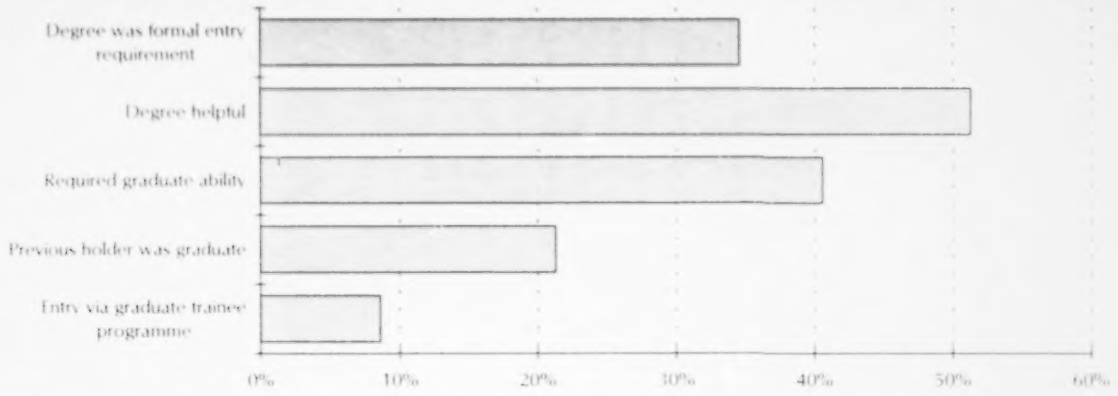
Graduates who had some experience of self-employment appeared to have slightly different conditions of employment to the other graduates. They were more than twice as likely to work part time in their first job, but commensurably less likely to be full time, compared with the rest of the sample. The difference between the groups was statistically significant (Table 5.2). Again, the same two reasons are likely to account for this difference, *ie* that these graduates were driven into self-employment, or that they chose it as part of their portfolio of careers. It could also be argued that the self-employed used more unconventional ways of getting their foot on the career ladder.

Those graduates who had expressed no interest in self-employment were more likely to have very traditional employment patterns; either working full time, or on permanent contracts. They were less likely to be in voluntary work. By contrast, the graduates with some experience of self-employment had more varied career patterns, including periods of work or training placement.

The more mature graduates were less likely to work full time in their first jobs, or to take work on a fixed contract. There could be many reasons for this, *eg* family responsibilities, diversity of routes into self-employment, and possible discrimination.

Not surprisingly, women were much more likely to work part-time in their first job. In terms of cohort, the pattern seemed very stable, although there were slight shifts from part-time to full-time first jobs, the older the cohort.

**Figure 5.4: Entry requirements for first job**




*Source: IES Survey 1998*

### Are first jobs 'graduate jobs'?

A series of questions were asked about first and current jobs in order to ascertain, from the entry requirements, whether the employment in question was of the level normally associated with higher education qualifications.

The majority of graduates in employment believed their degree was useful in getting their first job, although it was a pre-requisite for only one-third of the sample (Figure 5.4). Graduate under-employment was not uncommon; only four out of ten suggested that their first job required graduate abilities. Only a small minority of the sample of graduates also entered their first job via a formal graduate training scheme. This confirms the trend in the graduate labour market, which has seen a sharp decline in schemes which formerly led to fast track advancement (Connor *et al.*, 1996b).

Again, those graduates with no interest in self-employment had by far the most 'traditional' employment patterns. Their first job was more likely to demand a degree, require graduate ability, have previously been held by a graduate, and be part of a graduate trainee programme. In contrast, only one in five graduates who had some experience of self-employment reported that a degree was a prerequisite for their first job. More positively, however, half of all graduates, regardless of their career pattern, regarded their degree as helpful in getting their first job.

First jobs were very greatly influenced by gender. Men were more likely than women to move into graduate work as their first destination; they indicated their work was more likely to demand a degree as an entry requirement, or that a degree was helpful in getting the work. They were more likely to suggest that the work required graduate abilities, or that it was part of a formal graduate trainee scheme (Table 5.3). This may be due, in

**Table 5.3: Entry requirements for first job (per cent)**

| | Degree was formal entry requirement | Degree was helpful | Job required graduate ability | Previous job holder was a graduate | Entry via graduate trainee programme |
|---|---|---|---|---|---|
| Self-employed at some point | 19.6* | 49.1 | 36.4* | 19.1* | 6.4 |
| Had thought about self-employment | 29.0* | 53.3 | 30.9* | 16.5* | 3.8 |
| No interest | 44.0* | 50.8 | 47.8* | 25.7* | 12.8 |
| Under 25 | 34.4 | 51.3 | 38.8 | 20.8 | 8.3 |
| 25 or over | 35.3 | 51.8 | 43.6 | 22.2 | 9.1 |
| Male | 40.9* | 57.2* | 47.8* | 20.6 | 12.2* |
| Female | 29.3* | 46.5* | 34.7* | 21.9 | 5.6* |
| 1994 graduates | 38.4 | 48.5 | 42.6 | 24.2 | 7.1 |
| 1995 graduates | 35.3 | 51.2 | 41.8 | 17.6 | 9.8 |
| 1996 graduates | 29.3 | 52.8 | 37.2 | 21.3 | 8.1 |

* statistically significant results

*Source: IES Survey 1998*

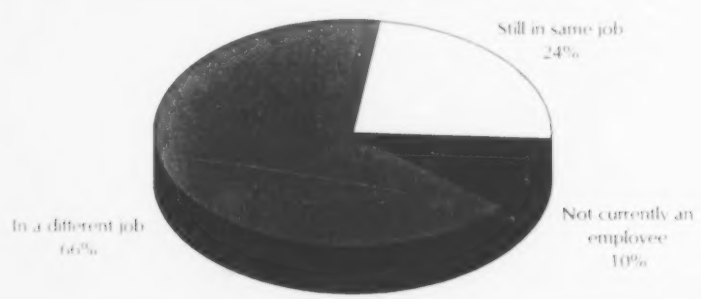
part, to the choice of degree subject and the subsequent career opportunities associated with different courses.

### How many are still in the same job?

Around one-quarter of those graduates who had ever worked were still in their first job, and although one in ten was no longer an employee, the majority had changed job (either through promotion or by leaving the employer altogether; see Figure 5.5). This could be expected, given that our graduate sample was at the beginning of a new career at a time when the concept of a 'job for life' was largely extinct.

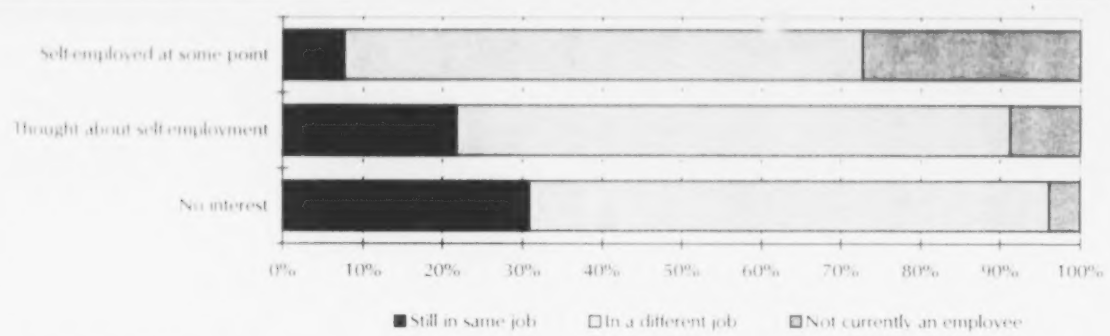
Graduates with some experience of self-employment were the most transient employees. Very few were still in their first job,

**Figure 5.5: Job mobility since graduation**




*Source: IES Survey 1998*

**Figure 5.6: First job to current job by self-employment history**




Differences are statistically significant

*Source: IES Survey 1998*

(although this is in part implicit in the definition 'self-employed at some point') and around one-quarter had a job in the past but were not currently employees.

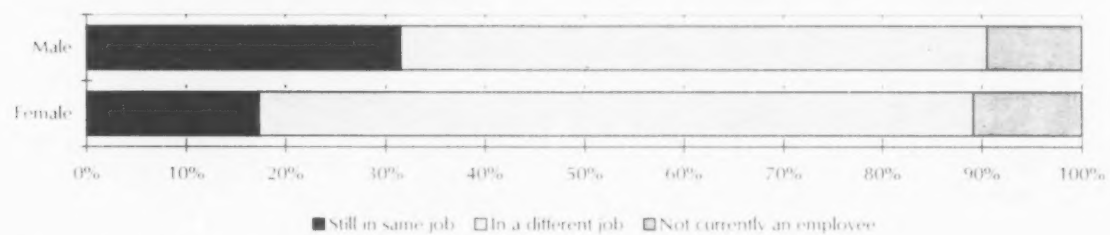
Those with no expressed interest in self-employment were the most likely to still be in their first job, and the least likely to have stopped working as employees (Figure 5.6).

Perhaps unsurprisingly, given that male graduates in this sample were more likely to have 'graduate jobs' as their first job, more men had remained with their first employer. There was little difference between men and women in the proportion who ceased to work as employees (Figure 5.7).

When the data was analysed according to cohort, there was a time effect, as Figure 5.8 shows. In other words, the 1994 graduates who had greater opportunity to change jobs had actually done so.

Analysis according to employment status also appeared to show a time effect, although it was not clear whether those graduates were no longer working as employees due to family responsibilities, some form of discrimination, or whether they had opted for self-employment.

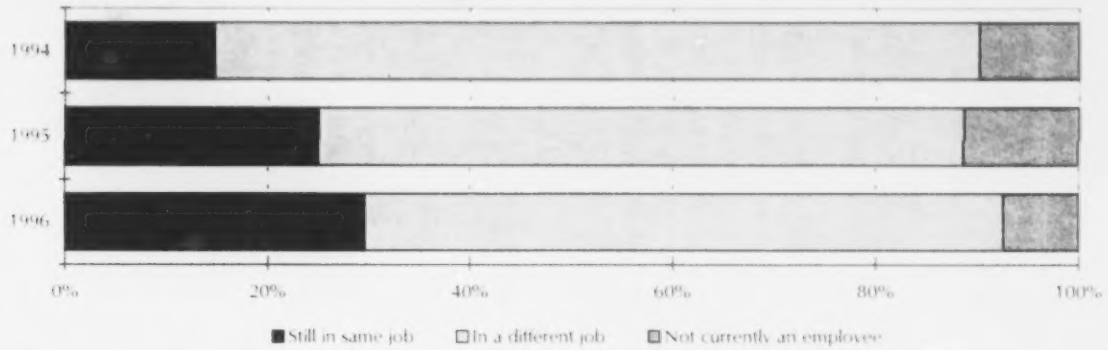
**Figure 5.7: First job to current job by gender**




Differences are statistically significant

*Source: IES Survey 1998*

**Figure 5.8: First job to current job by cohort**




Differences are statistically significant

*Source: IES Survey 1998*

Although our sample was selected to maximise the number of self-employed graduates, it does appear to be the case that ex-employees were more likely opt for a career in self-employment. Over half of those graduates who had had a job but were not currently employees, were in self-employment. One-quarter were in further study, but very few had left the labour market completely (see Figure 5.9).

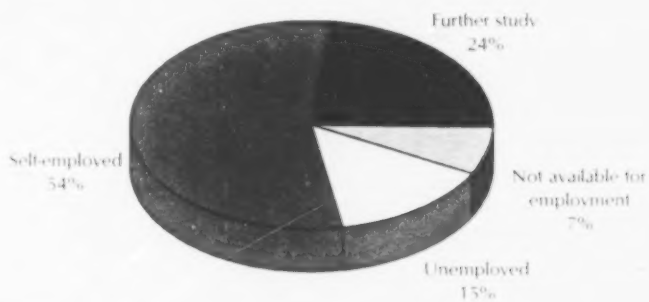
## 5.2 Current employment

### Conditions of employment in current jobs

As might be expected, the 'quality' of graduates' employment improved as they moved from their first to subsequent jobs. The proportion with full-time work and on permanent contracts increased (Figure 5.10). Compared with their first labour market experience, the proportion of graduates in part-time jobs, and those working on fixed term contracts declined significantly. Very few of them were still doing voluntary work (cf Figure 5.3).

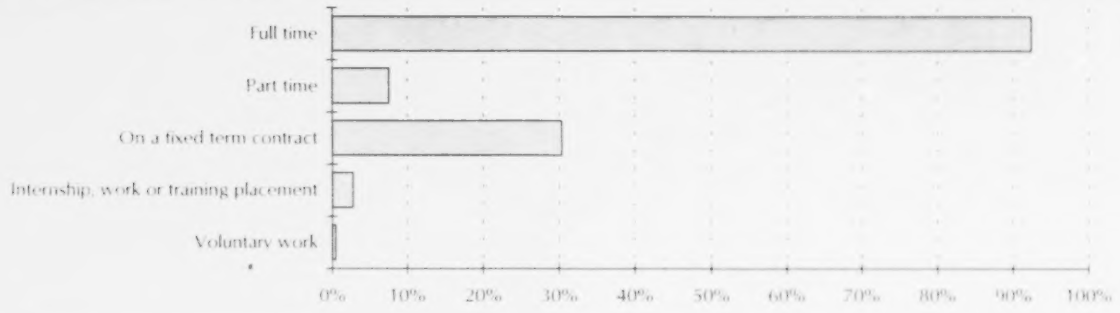
As in situations seen earlier, the graduates with experience of self-employment had the least conventional employment patterns.

**Figure 5.9: Those who have worked, but are not doing so now: current activity**




*Source: IES Survey 1998*

**Figure 5.10: Characteristics of current job**




*Source: IES Survey 1998*

They were more likely than other current employees to work part time and on fixed term contracts. Similarly, mature graduates were more likely to work in a part-time capacity, as were women. Four out of ten people who graduated in 1996 were working on fixed term contracts (Table 5.4).

### Entry requirements to current jobs

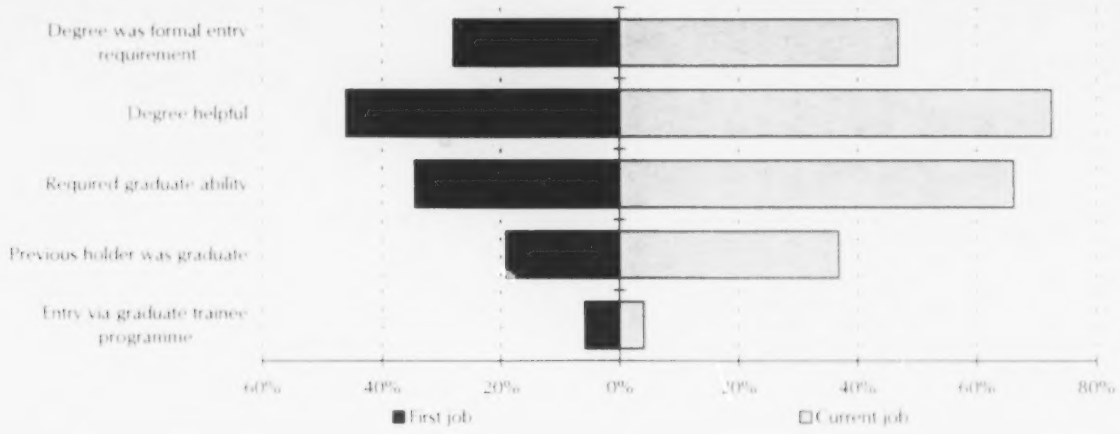
Where they had changed jobs, the graduates were asked to describe the entry requirements of their new job (Figure 5.11). There were indications that once again, the 'quality' of graduate work for those continuing to be employees improved over time, *ie* both between first and current jobs, and over the period since graduation. However, as there was no information about the quality of work on offer to those who chose other career options, this could be a self-selecting bias.

**Table 5.4: Characteristics of current job (per cent)**

| | Full time | Part time | Fixed-term contract | Internship, work or training placement |
|---|---|---|---|---|
| Self-employed at some point | 82.7 | 17.3 | 37.5 | – |
| Had thought about self-employment | 93.0 | 7.0 | 35.8 | 4.9 |
| No interest | 95.9 | 4.1 | 23.9 | 1.9 |
| Under 25 | 96.1 | 3.9 | 30.3 | 2.7 |
| 25 or over | 88.2 | 11.8 | 30.8 | 3.1 |
| Male | 96.6 | 3.4 | 27.8 | – |
| Female | 89.3 | 10.7 | 32.6 | 5.0 |
| 1994 graduates | 92.3 | 7.7 | 28.4 | 4.6 |
| 1995 graduates | 96.5 | 3.5 | 21.1 | 4.3 |
| 1996 graduates | 90.8 | 9.2 | 40.5 | – |

*Source: IES Survey 1998*

**Figure 5.11: Entry requirements of first and current job (where different from first job)**




*Source: IES Survey 1998*

A degree was considered to be continually useful in obtaining employment, and just under half of graduates who were currently working reported that a degree was a formal entry requirement (nearly double the proportion of first jobs which required a degree). Two-thirds thought that their current employment required graduate level ability, compared with only half who said this of their first job. More people had moved into jobs which had previously been held by a graduate. The number in current employment as part of a graduate training scheme decreased, as might be expected.

The data continued to show those with no interest in self-employment as having a very traditional 'graduate' career pattern. They were much more likely to be in a new job for which a degree was a formal requirement and more likely to be doing a job which was previously held by a graduate, and this was statistically significant.

Age did not seem to influence the level of ability required in subsequent jobs, once people started in their career, though women were less likely to believe their work utilised their graduate skills.

The longer they had been in the labour market, the more essential or helpful the graduates said their degree was, and the more likely they were to be doing a job previously held by a graduate (Table 5.5).

The above analysis of current job status has concentrated on those graduates who had different first and current jobs. It was possible to analyse the characteristics of all current jobs, by carrying forward data for those still in their first job.

**Table 5.5: Characteristics of current job, where different from first job (per cent)**

| | Degree was formal entry requirement | Degree was helpful | Job required graduate ability | Previous job holder was a graduate | Entry via graduate trainee programme |
|---|---|---|---|---|---|
| Self-employed at some point | 27.4* | 66.2 | 65.3 | 29.4 | – |
| Had thought about self-employment | 47.9* | 76.8 | 64.9 | 36.6 | 5.6 |
| No interest | 53.7* | 72.3 | 66.5 | 39.7 | 5.3 |
| Under 25 | 44.3 | 75.6 | 66.5 | 39.4 | 4.8 |
| 25 or over | 50.0 | 69.9 | 66.5 | 33.8 | 3.4 |
| Male | 47.8 | 75.7 | 72.9* | 36.1 | 5.3 |
| Female | 46.3 | 70.8 | 61.9* | 37.7 | 3.2 |
| 1994 graduates | 51.0 | 78.5 | 74.7* | 42.6* | 4.4 |
| 1995 graduates | 44.0 | 69.4 | 59.5* | 34.3* | 1.9 |
| 1996 graduates | 42.6 | 71.2 | 62.5* | 33.6* | 5.6 |

*Statistically significant

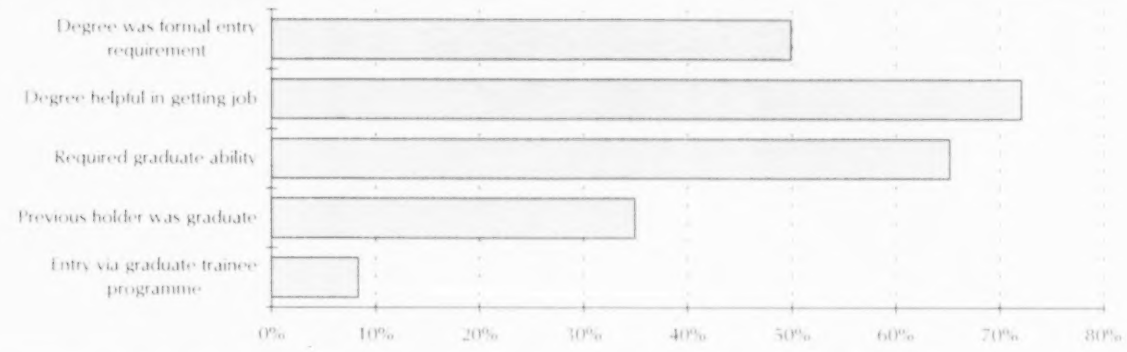
*Source: IES Survey 1998*

### All current employment entry requirements

Figure 5.12 shows the type of work graduates in employment were doing at the time of the survey. Just under half of those currently working reported that a degree was a formal entry requirement. The majority, though, thought their degree was helpful in getting their job, and that their tasks required graduate ability. One-third were in jobs previously held by graduates.

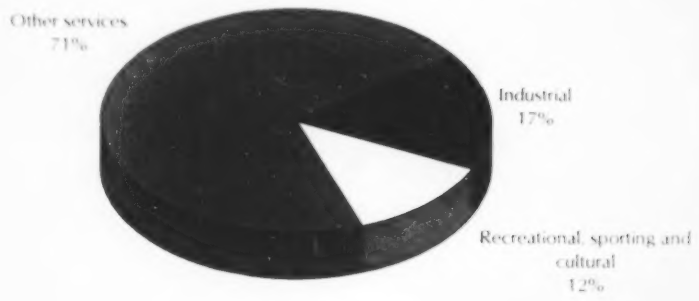
A more detailed picture of current employment can be drawn from the data. In addition to measuring whether they were in 'graduate jobs', and the terms and conditions of those jobs, respondents were asked about the sector and size of their employment, and their current annual earnings.

**Figure 5.12: Entry requirements for current employment (bringing forward the entry requirements of those who are still in their first job)**



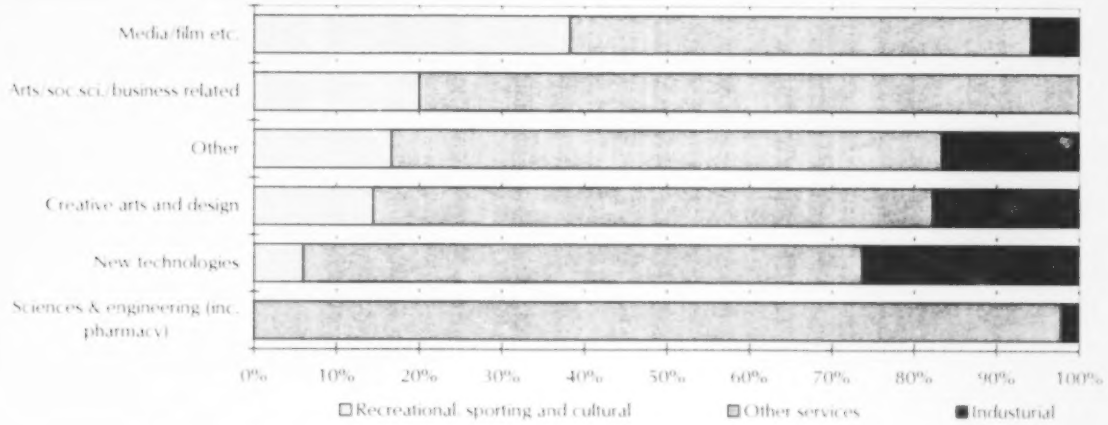

*Source: IES Survey 1998*

**Figure 5.13: Sector of current employment**



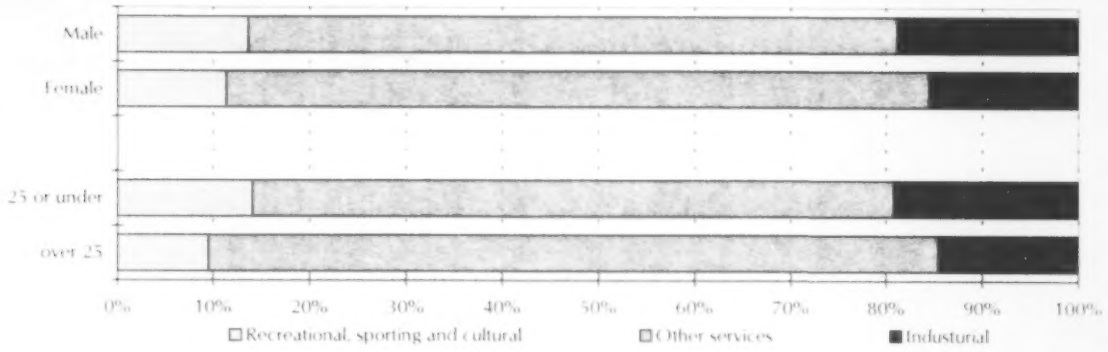

*Source: IES Survey 1998*

**Figure 5.14: Subject of degree course and industry in current job**



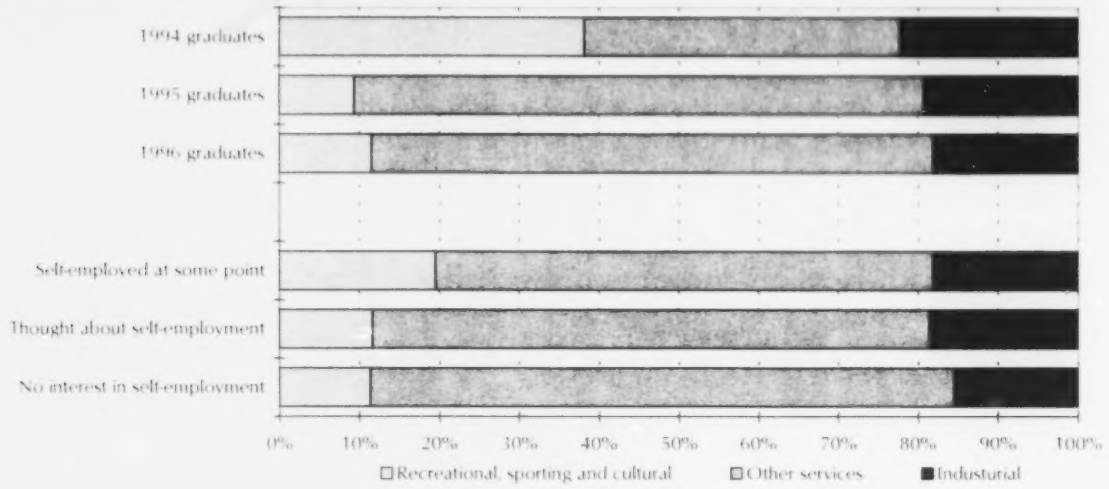

*Source: IES Survey 1998*

**Figure 5.15: Sector of current job**




*Source: IES Survey 1998*

**Figure 5.16: Sector of activity in current job**




*Source: IES Survey 1998*

## Sector of activity

Overall, four-fifths of the sub-sample of the graduates who were in work were employed in the service sector, while 12 per cent were employed in recreational, sporting and cultural industries (Figure 5.13). This is in part a reflection of the types of courses from which the sample was drawn, in particular the high number of creative arts graduates. The association between degree subject and industry of employment is shown graphically in Figure 5.14.

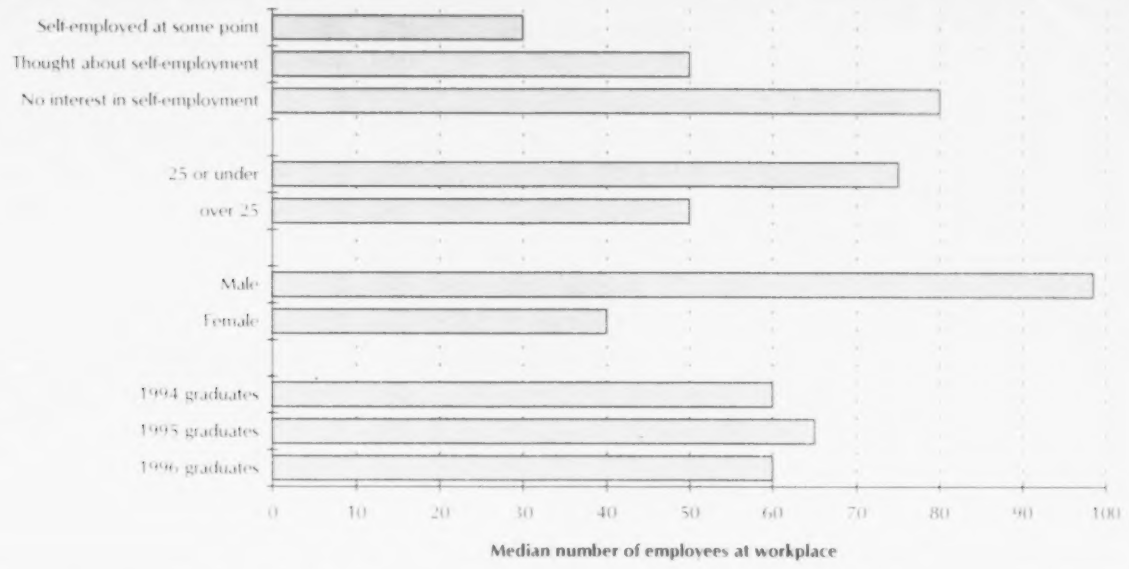
Both male graduates and those under 25 years were more likely to be in the recreational, sporting and cultural industries and the general industry sector (Figure 5.15). Two out of five 1994 graduates currently in employment had worked in the 'other services' sector, compared to seven in ten for each of the other cohorts. Interestingly, the self-employed graduates were more likely to have a business in the recreational, sporting and cultural industries (Figure 5.16).

## Size of establishment

The graduates currently in employment worked in establishments with a median employment level of 60. However, this average disguised the variations that existed. Whilst one-third of those currently employed worked in establishments with 25 or fewer employees, about fifteen per cent claimed to work in very large organisations, with 1,000 or more employees.

Those employed graduates with some record of self-employment generally worked in smaller establishments. The graduates who had not expressed an interest in self-employment continued to appear corporate-minded, and worked in much larger organisations on the whole. Both male and younger graduates also

**Figure 5.17: Number of employees at establishment in current job**




*Source: IES Survey 1998*

worked in larger workplaces, although there was not much movement into larger workplaces over time (Figure 5.17).

### Salary

A distinction has been made between those working full time and part time when calculating the mean earnings of graduates in our sample. Graduates working full time earned a median salary of £17,000 a year, whilst part timers' current salary was £9,000 a year.

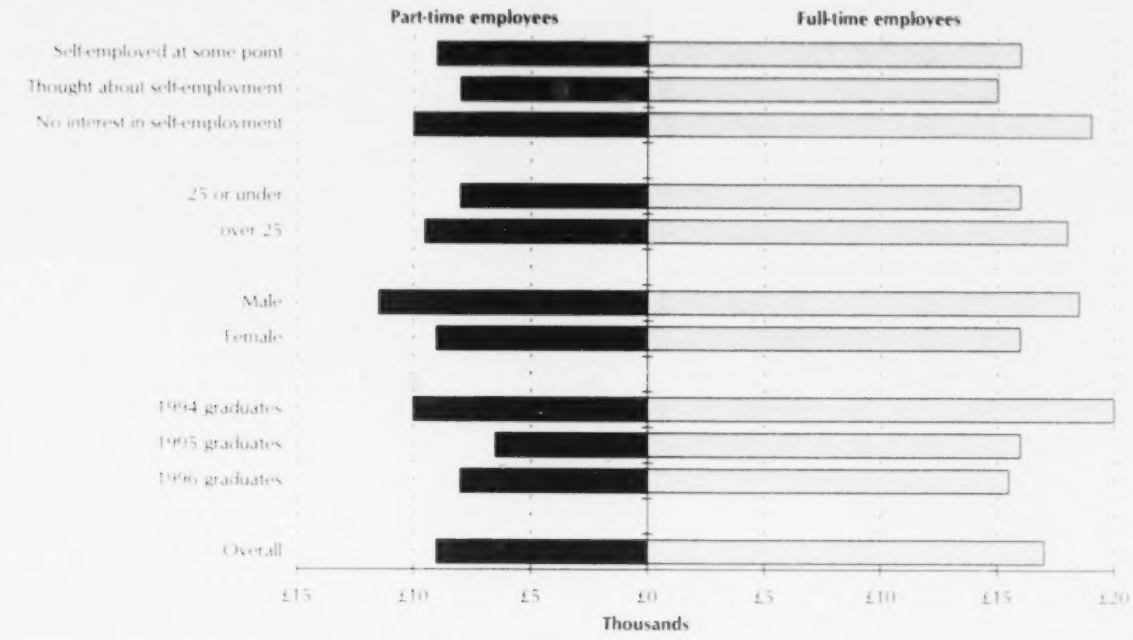
Men earned more than women, even when they had the same qualifications, and even when both groups were working part-time. There appeared to be an age or time effect. Mature graduates earned more, as did those from older cohorts.

Those graduates who had considered self-employment, but not tried it earned the least. This suggests that low earnings could be a motivation for considering self-employment. Predictably, those with no interest in self-employment earned more than those with an interest in self-employment (Figure 5.18).

## 5.3 Skills development

There was interest in the extent to which the graduates had developed employability skills during their time in higher education; in other words how a university education had contributed to their skills. Respondents were asked to rate a number of skills according to the level they perceived to have at the start of their university career. The skills were ranked on a five point Likert scale, where 1 represented 'no skill' and 5 'good

**Figure 5.18: Median earnings in current job**



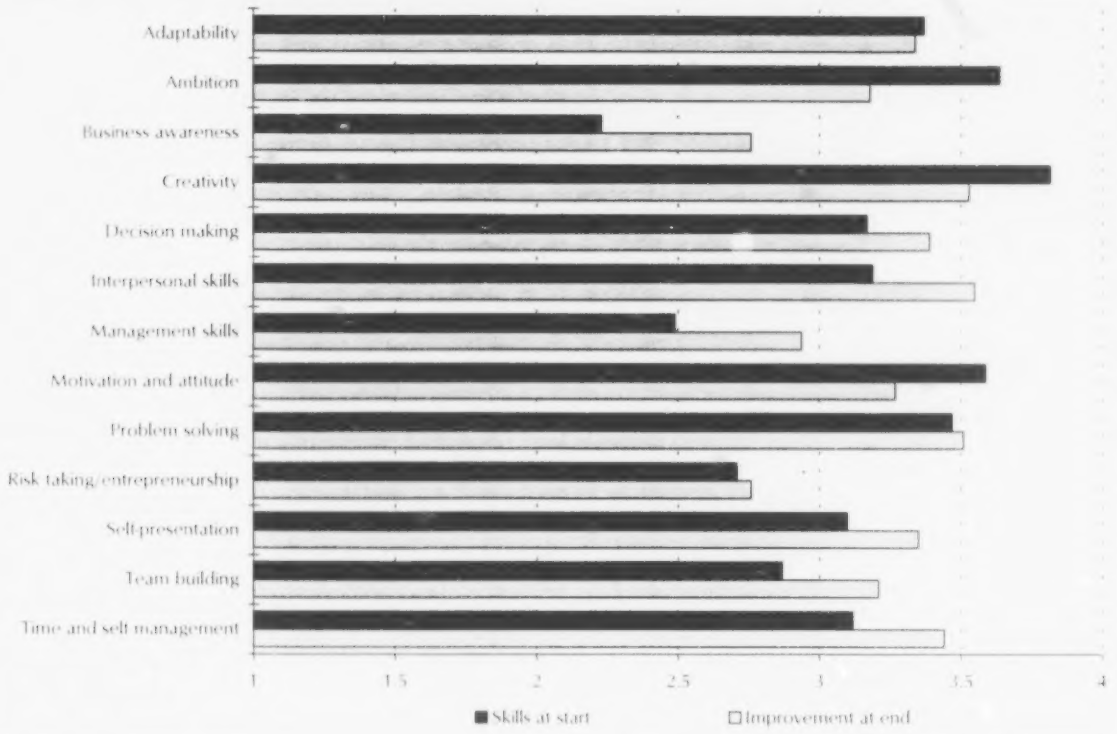

*Source: IES Survey 1998*

skill'. They were, similarly, asked to estimate how much progress they had made in those skill areas at the end of their course. Again, the development of skills was ranked on a five point scale, where 1 was 'no improvement' and 5 'great improvement'. In the analysis we have produced an average score for each factor. The higher the score, the higher the level of skill held or the greater the improvement made. The results are shown in Figure 5.19 below.

The graduates in the sample as a whole believed they had reasonably good levels of skill at the start of their university careers. They gave the majority of skills mean scores of at least 3.0. In particular, they had good creative skills (mean score of 3.82), were ambitious (3.64) and were motivated (3.59). As might be expected, they possessed little business skills, namely risk taking or entrepreneurship, management skills, and business awareness.

Not surprisingly, at the end of their course the graduates had made improvements in some skill areas but not others. In particular, their creativity appeared to have diminished, as had their ambition and motivation. On the other hand, they had improved their interpersonal, and time and self management skills considerably; and although still low, the graduates had also improved their management skills and awareness of business. The differences between different groups of graduates were only slight, although graduates with self-employment experience were more likely to have made greater improvements in their creativity and risk-taking skills.

**Figure 5.19: Skills developed by graduates in higher education**




*Source: IES Survey, 1998*

What this analysis shows is that higher education appeared to produce mixed results in terms of helping graduates improve on a number of employability skills. Whilst graduates had built on the generic skills required by employers, they had developed only little creative, entrepreneurial and risk-taking skills.

# 6. Self-employment and Business Start-ups

In this chapter we present the data on the self-employed graduates themselves. As we suggested in Chapter 4, we have used self-employment to cover the breadth of employment activities where the individuals involved take care of their own tax. That definition embraces those who regard that employment form as their main activity, as well as those for whom it is part of a wider portfolio of activities. The chapter looks, among other things, at the main defining features of the self-employed graduates, in terms of their personal characteristics, and the characteristics of their jobs and working environment. Our sub-sample of graduates includes all those who had ever been self-employed, freelancing, or running their own business at any time since they graduated with their first degrees, even if this was not their main activity.

## 6.1 Routes into self-employment

We begin by tracing the routes taken by the graduates into or out of self-employment. As was seen in the two preceding chapters, the graduates in the study followed a variety of career paths. From the combination of their responses in the survey, it was possible to identify the most common patterns of different career profiles, including self-employment. In the rest of this section we summarise that information for each of the cohorts under study. For the 1994 graduates the analysis covered 159 cases; for the 1995 cohort, 197 cases, and for the 1996 cohort, 213 cases.

### The 1994 cohort

For the 1994 graduates there were 43 alternative career routes:

- by far the most common was working as an employee at all four stages since graduating; almost half (48 per cent) had this career pattern
- about five per cent were in continuous self-employment
- one-fifth (20 per cent) were self-employed at the time of the survey, and this was their main activity
- about four per cent entered self-employment after a spell of unemployment, and were currently self-employed

- about one in ten (11 per cent) of those currently self-employed did so immediately after a spell as an employee
- just under one-tenth (nine per cent) were currently self-employed, but also had a spell of self-employment immediately before
- three out of every five (60 per cent) had been employees at all stages since 1996
- only two respondents had been in and out of self-employment, *ie* were self-employed, did something else, then went back to it
- there was no data for the cohort at the time of graduating (*ie* September 1994); however, about one in ten were self-employed one year after graduating (September 1995), with about half this proportion (five per cent) still currently self-employed.

### The 1995 cohort

For the 1995 graduates there were 62 different career paths:

- continuous employment was the most common career path, but accounted for about one-third (34 per cent) of the graduates
- about four per cent were in continuous self-employment
- about one in five (19 per cent) was currently in self-employment as their main activity
- three per cent were currently self-employed, but had a spell of unemployment immediately before
- six per cent of those currently self-employed were employees in the period immediately before
- just under one-tenth (nine per cent) were currently self-employed, and were also self-employed in the preceding period
- almost two-thirds (65 per cent) had been employees continuously since 1997 (*ie* at two sampling points)
- four respondents (two per cent) had been self-employed, out of, and then back into self-employment again
- one in ten entered self-employment straight after graduating (September 1995); just over half this proportion (six per cent) were still self-employed at the time of the survey, although some had had spell in other forms of activity.

### The 1996 cohort

The 1996 graduates provided data at three sampling points only. Overall, they had 46 different career paths:

- **continuous employment was the most common pattern, with 36 per cent of the cohort sharing this experience**
- four per cent were in continuous self-employment over the sampling periods
- almost one-fifth (18 per cent) were currently in self-employment as their main activity
- four per cent who were currently self-employed entered directly after a spell of unemployment
- eight per cent were currently self-employed, but had a spell as employee immediately beforehand
- about three-fifths (59 per cent) had been employees continuously since September 1997 (two sampling periods)
- none had been in and out of self-employment
- eight per cent entered self-employment only a few weeks after graduating (September 1996); and half of these (four per cent) were still self-employed, never having undertaken any other activity.

Taking the sample as a whole, it was possible to highlight the principal routes into self-employment. One-fifth (19 per cent) of the graduates for whom self-employment was the main economic activity had done nothing else, *ie* they were in self-employment at all four sampling points (1995 to 1998). However, a quarter (26 per cent) entered self-employment directly from a spell in employment as employees, another eight per cent directly after further study, but around one-tenth (11 per cent) directly after a spell of unemployment. The graduates who included self-employment as part of a portfolio of economic activities followed almost identical routes. Whilst only around one-tenth (nine per cent) had been in continuous self-employment, 27 per cent did so directly from employment as employees, six per cent after further study and 12 per cent immediately after unemployment. For both groups, there was hardly any exit and re-entry of self-employment. This suggests that once they enter self-employment, these graduates were more likely to remain so for a considerable spell.

## 6.2 Reasons for choosing self-employment

A number of studies have attempted to examine differences in characteristics between self-employed graduates and graduate employees. The economists' argument is about the relative returns to self-employment as opposed to waged employment. Dolton and Makepeace (1990) used an econometric model to explore the 'rational' economists' argument that people choose between self-employment and employment on the basis of expected utility, *ie* earnings and other benefits. They used their model to examine whether earnings were a significant determinant, or whether there were better predictors of choice.

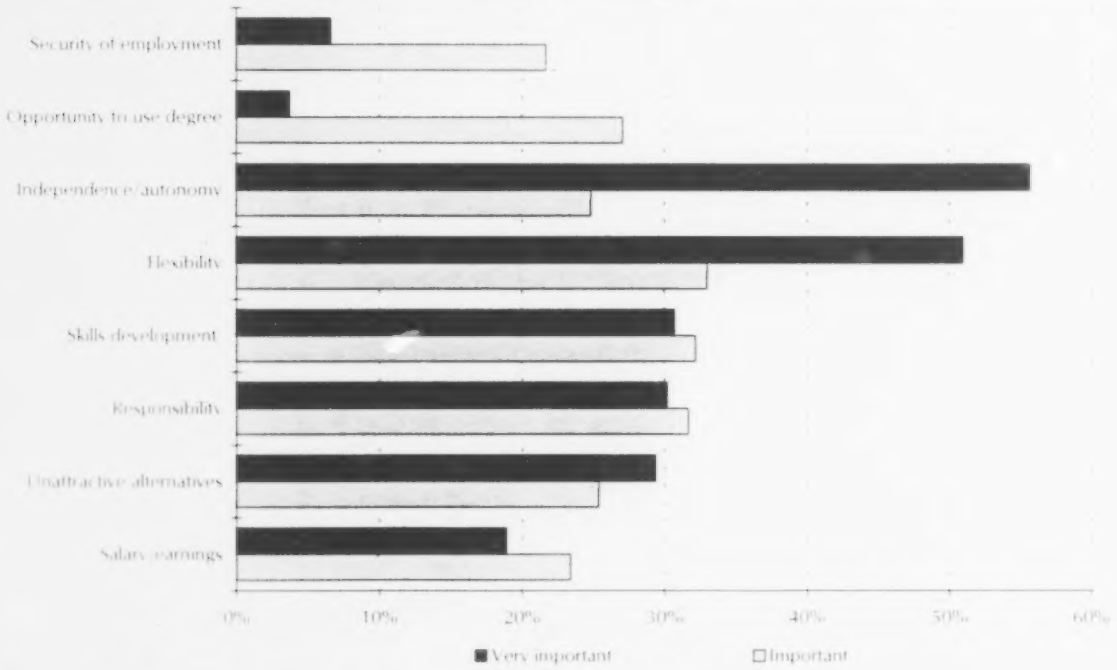
In theory, if self-employment led to higher earnings, then more graduates would choose that rather than become employees. Rosa and McAlpine (1991) have also looked at the attitudes of recent graduates to entrepreneurship. They used 'principal components analysis' to answer a number of questions, *viz*:

- whether graduates' attitudes to the world of work orient them inexorably towards a career of employment in large organisations
- whether graduates lack the drive, ambition, creativity, *etc.* usually associated with entrepreneurship
- whether graduates are 'comfort-and-security' oriented.

Their analysis produced five distinct explanatory factors for the decisions of graduates to decide either way — ambition, comfort, security, intrinsic reward and status. Rosa and McAlpine suggested that behaviour that is recognised as 'drive' in entrepreneurs was synonymous with the 'ambition' component of their explanatory factors, and 'creativity' closely aligned with their 'intrinsic reward' factor.

The self-employed graduates in this study were asked which of a number of factors were important in choosing to become self-employed. They were asked to rate the factors on a scale of one to five, where 1 was 'not at all important' and 5 was 'very important'. Figure 6.1 shows the factors which the graduates considered to be important to their decision. The chart shows

**Figure 6.1: Graduates' motivation for choosing self-employment**




*Source: IES Survey, 1998*

that the graduates placed much store on the autonomy (independence) and flexibility which self-employment offered. Three other factors were rated as very important to the decision of a sizeable proportion of graduates. Self-employment was seen to provide an opportunity for them to develop skills for their future career, and to take early responsibility for their career. For others, however, self-employment was preferable to a career in other alternative employment. Graduates were not overly concerned that self-employment would offer them security of employment, nor that it would offer them the opportunity to use or develop the knowledge gained from their degree. The financial rewards of self-employment lay somewhere in-between. To this extent, the graduates in this study did not conform to the 'rational economists' argument' of Dolton and Makepeace. Nor were they oriented towards Rosa and McAlpine's 'comfort and security'.

We found evidence in the course of our interviews with self-employed graduates which lend broad support to these findings. A respondent who did not want a full-time job connected to her degree told us that she was attracted to become self-employed because it provided the flexibility that she was looking for.

> *'I felt that rather than get a full-time job, self-employment might be an option where I would retain a bit of independence and freedom, and time to do what I wanted, but also bring in some money.'*

Another respondent described her decision to become self-employed in terms of the opportunity to take early responsibility and be in control of her career.

> *'I wanted to control the creative process, and how to think a project through. I didn't see why I couldn't do those things, rather than give up that control to a manager if I was an employee.'*

Autonomy and taking responsibility can also be expressed in terms of the disadvantages of alternative forms of employment. The same respondent provided an illustration of why starting a business was infinitely preferable to working as an employee. Her opinion of the negative aspects of being an employee was reinforced by the lack of acknowledgement by an employer for the work people did.

> *'They are a good company and do great work. But they treated me and others like very junior designers, not taking them seriously, or giving due respect and proper pay.'*

Perhaps the most complete summary which took account of most of the motivating factors described above was provided by a third respondent thus:

> *'I'm not going to say that (money) is a secondary reason. The potential exists to earn significantly more in self-employment than a salaried job, but the priority reason revolves around satisfaction; the satisfaction of being part of a business idea, getting people on board with a very high level of skill; working with them to provide us all*

*with an income, to provide us all with a career that will hopefully last us a lifetime. The control aspect, being in charge of your own future, being able to have a fighting chance of controlling how successful you're going to be, where you're going to go in life, is unbeatable.'*

In addition to motivation, there are other factors of influence which help to shape graduates' attitudes to self-employment. It is a commonly held view that among the predisposing factors to orientation towards entrepreneurship is a person's family background. For example, Scott and Twomey (1988) in a study which assessed students' attitudes towards entrepreneurship found that those with a full-time, self-employed parent had the highest preference for self-employment. Indeed, the results from our survey provided confirmation of that view. The self-employed graduates in the sample were more likely to have a family member who was self-employed or had their own business. More than three out of five (62 per cent) self-employed graduates were from such families, almost twice as high as those who were not interested in self-employment (32 per cent). This would suggest that culture and informal skills interact to some extent to provide the human capital necessary for successful self-employment.

In our qualitative interviews with graduates we found family background, in particular parental influence, to be a very important contributory factor to the decision to enter self-employment. Parental influence provided not only a role model, but also support in the form of helping to build confidence. As one respondent put it:

*'My dad was self-employed; he'd set up his own business and so he'd done it. For me it was good for the fact that he'd been there, done it all, so it was not such a stupid idea for me to try. He knows that it's not plain sailing; he knows you have to work all hours; he knows the fact that sometimes you have money, sometimes you don't, and cash flow can be a problem. He knows that you'd have to negotiate with the bank all the time, or that customers would renege . . . Knowing that somebody else in your family has been there and overcome those problems gives you the encouragement to think that maybe I can do it too.'*

There was one other factor which the graduates we interviewed suggested was an important influence on their decision to enter self-employment. They valued placement in an organisation because it equipped them with the skills and experience they believed they needed to run a business. Different-sized organisations provided different types of useful experience. Gibb (1997), for example, has described the advantages that working in the small firm gives graduates to include: 'the possibility for wider, earlier responsibility; opportunities for independent creative work without close supervision; ability to measure the impact of one's personal contribution on the performance of the organisation as a whole; and the potential for creating one's own growth through organisational growth'. All these factors, Gibb believes, provide graduates with the chance to learn to run their own business.

The graduates we interviewed had almost invariably been on placement in an organisation, and highlighted the skills they had acquired as a result. One described the advantages of the skills learnt in a small design organisation as being 'a Jack of all trades'.

> *'You had to set up your exhibition stand, you had to organise your own fashion shows and sort out your own marketing. There was just a team of eight people or less, basically all working together, whereas with a different [large] company you can just employ people to do that sort of work for you.'*

Another respondent weighed up the pros and cons of experience in different sized organisations, and suggested that each had positive benefits.

> *'At the end of the day you're certainly going to learn a lot more about the whole picture of what running a small business is like in a small organisation rather than the (named large organisation) alternative. But you can also, in a large organisation, possibly learn more which is going to benefit your business, in terms of management structure that a small business may grow to need; more professionalism, more discipline. So as to benefits, you learn from both.'*

## 6.3 Characteristics of graduate self-employment

As we have already seen in Chapter 3, almost one-third of the graduate respondents (201 in all, or 31 per cent of the sample) had some experience of self-employment.

### 6.3.1 Background

The self-employed graduates were made up of 54 per cent women and 46 per cent men. The graduates in this subsample had been in self-employment on average for a year and a half (19 months). The shortest period of self-employment was one month, and the longest eight years, although this may be among graduates older than the principal cohorts under study. For three-quarters (75 per cent) of the graduates, self-employment was their main employment activity, whilst for the rest it was part of a portfolio of jobs and other activities. Men were more likely than women to describe self-employment as their main activity; four-fifths (80 per cent) of the men claimed this, compared with two-thirds of women. The younger graduates (79 per cent) were also more likely than those older (73 per cent) to claim self-employment as a main activity, notwithstanding that older graduates comprised a majority of those for whom self-employment was the main activity of their working life. More than half of the self-employed graduates (57 per cent) took a degree in arts and design; about one in eight (12 per cent) graduated in the arts and social science, and an almost identical proportion (11 per cent) in new technologies. About one in ten took a media or film related course.

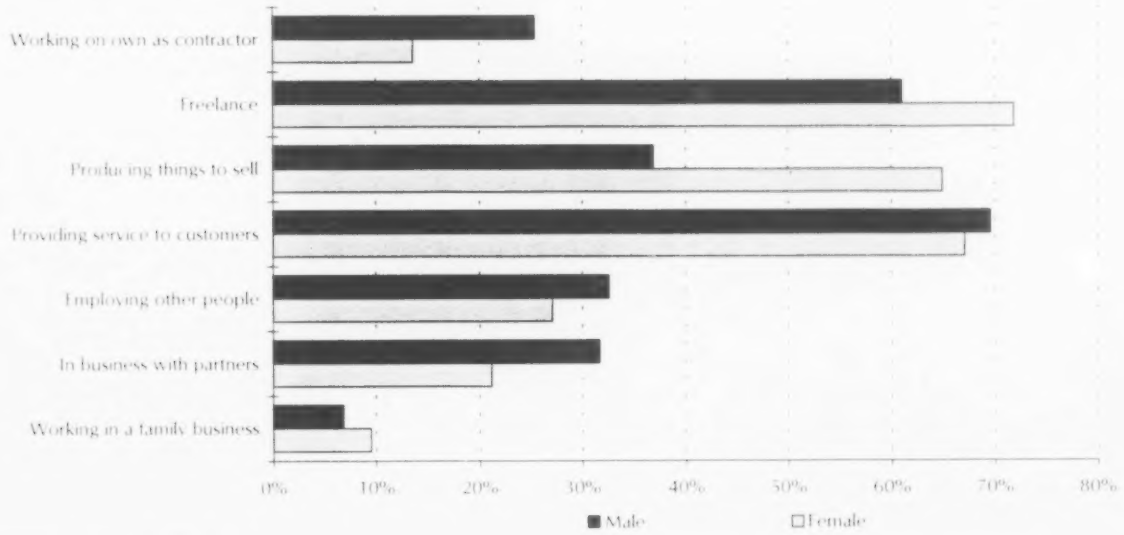
### 6.3.2 Type of self-employment

The graduates were on the whole likely to be engaged in more than one kind of self-employment. In other words, it was usual for them to combine, say, working freelance for several organisations, whilst at the same time running a partnership business. However, about one-third (32 per cent) were engaged in one activity only. For the subsample, 16 per cent worked exclusively as freelances; seven per cent were only producing things to sell, and about four per cent each working exclusively on contract with large organisations, or providing a service.

When taken in combination, the most popular type of graduate self-employment was providing services for customers (Figure 6.2). More than two-thirds of the graduates (69 per cent) were engaged in this activity. Slightly more than half (52 per cent), however, were engaged in some form of production activity, and were producing things to sell. Fewer than one in five was working on their own account as a contractor mainly for one large organisation. These were different from freelances who were more likely to either work in more than one sector, or for more than one organisation. Two-thirds of the graduates (67 per cent) worked as freelances. Very few of the graduates worked within a family business.

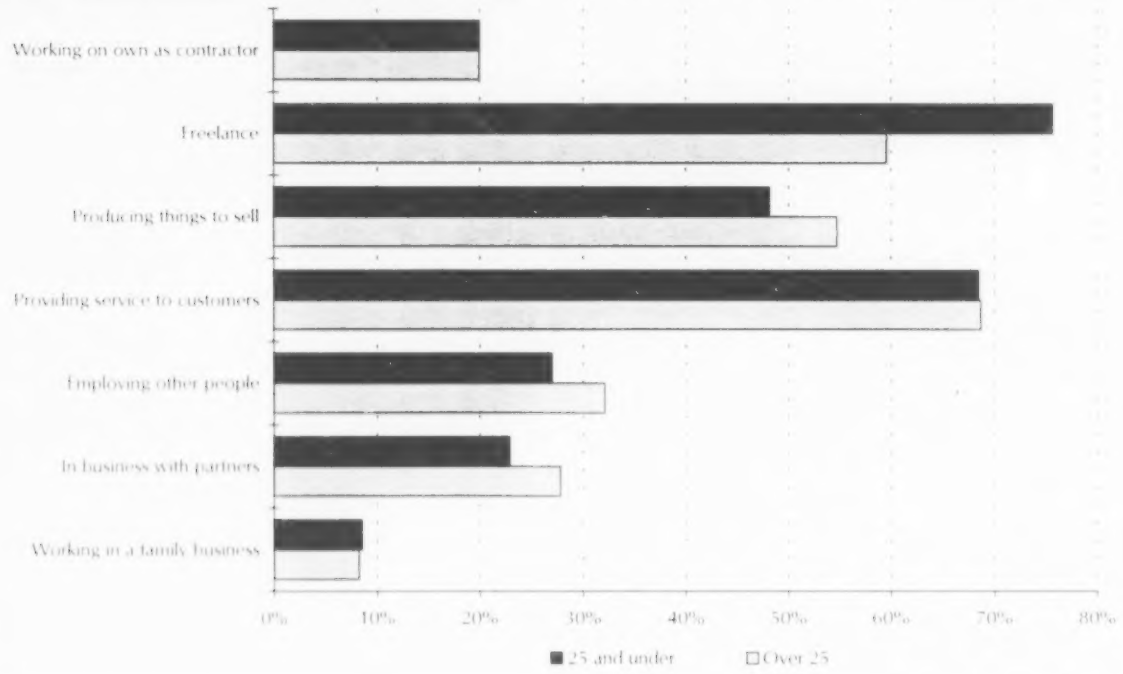
Men were spread more across the different types of self-employment, while women were predominantly freelances and engaged in producing things to sell. This is more likely to reflect the influence of the degree course, as women were more dominant in the art and design courses from which also the freelancers and producers were largely drawn. Among the age groups, younger graduates were more likely to be freelances,

**Figure 6.2: Type of graduate self-employment, by gender**




*Source: IES Survey, 1998*

**Figure 6.3: Type of graduate self-employment, by age (per cent)**




*Source: IES Survey, 1998*

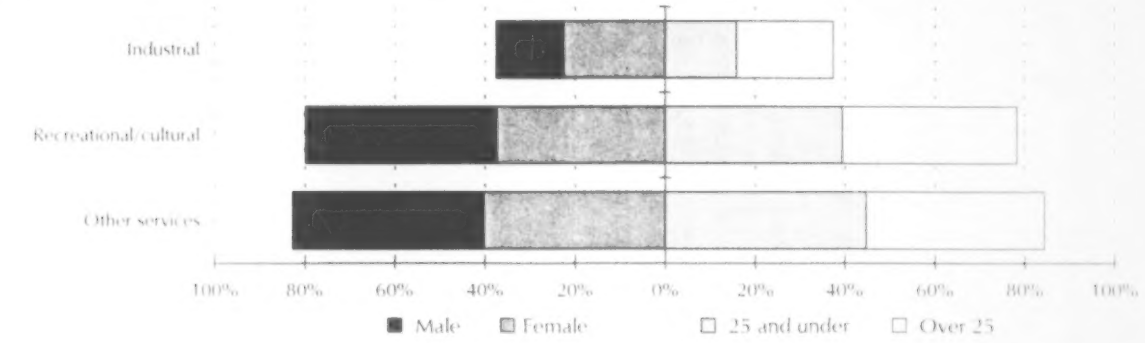
while mature graduates had significant advantage in production activities (see Figures 6.2 and 6.3).

### 6.3.3 Sector of activity

The self-employed graduates were engaged in a broad range of business activities in both the industrial and service sectors. We have grouped the different business types mentioned in the survey into three broad categories — 'industrial', 'recreational, sporting and cultural services', and 'other services'. Table B1 in Appendix B shows a comprehensive list of the employment sectors self-employed graduates work in.

As might be expected, given the type of self-employment they were engaged in, the majority of the graduates (82 per cent) worked in the services sector. They were equally distributed between the broad 'other services' (41 per cent) and recreational and cultural activities (40 per cent). Around one in five (19 per cent) worked in a variety of industrial activity areas. Figure 6.4 shows that men and women were almost equally distributed in the broader services sector. However, women were more likely than men to be engaged in industrial activity, whilst proportionately more men were in recreational activities. In terms of age, the older graduates were more likely than those younger to be found in industry. Younger graduates were concentrated more in other services.

**Figure 6.4: Sector of graduate self-employment activity, by gender and age (per cent)**




*Source: IES Survey, 1998*

Only few differences emerged, in terms of the kind of self-employment the graduates were engaged in. Freelances, the majority of who also regarded self-employment as their main employment activity, were more dominant in the recreational sector.

### 6.3.4 Number of employees

Excluding those who worked on their own (*ie* did not employ other people), employment levels for the subsample ranged between one and 800 (this latter was recorded by a respondent outside of the principal cohort groups). The average level of employment was about 11 (although this figure was influenced to some extent by the single large employer). Almost three out of five self-employed graduates (58 per cent) worked on their own, and another third (32 per cent) employed between one and five people. Predictably, service sector businesses employed more people. There was little difference between men and women, but women were more likely than the men to work on their own. In terms of age, mature graduates were more likely to run businesses which employed more people, although almost twice as many young graduates had businesses with more than ten employees (eight per cent, compared with five of mature graduates). Together, the self-employed graduates in our sub-sample employed just under 2,000 people.

### 6.3.5 Hours of work

It might be expected that different types of self-employment will affect or determine the number of hours that people work. It might differ, for example, between those for whom self-employment is the main employment activity and those not. The evidence from the survey suggested that the long hours culture is an established feature of the work of a significant proportion of the self-employed graduates. The graduates in the subsample worked an average of 38 hours a week. Whilst more than half (56 per cent) worked a 40 hour week, about seven per cent worked

in excess of 60 hours a week. Indeed there was some variation between groups of graduates. In particular, those whose main activity was self-employed tended to work longer than those for whom self-employment was part of their employment activities. Four out of five of the latter (83 per cent) worked a maximum of 40 hours a week, compared with two out of five of the former. Mature graduates were also more likely than those younger to work longer hours, although this was partly because they had larger businesses, and partly that self-employment was their main activity. There was little sectoral difference, although graduates with businesses in recreational services were most likely to work the least hours.

### 6.3.6 Earnings

There is little research evidence on the earnings of self-employed graduates, in contrast to data available on the earnings of graduate employees. It is, therefore, difficult to describe the earnings of the graduates in the sub-sample in comparative terms. What little evidence is available on the incomes of self-employed graduates relate very specifically to particular groups, and are not a reliable guide about the earning levels. Honey *et al.* (1997), for example, in their study of the careers of visual artists suggested that income from their jobs in the first twelve months after graduation 'was pretty much non-existent'. La Valle *et al.* (1997) however, have cited a study by Shaw and Allen (1997) which, in part, lends some support for the Honey *et al.* findings. That suggested that the distribution of earnings in the art labour market was very skewed; a small number of artists had high earnings, while the great majority of professionals in the field survived on very small income. The findings from our survey also confirm this pattern.

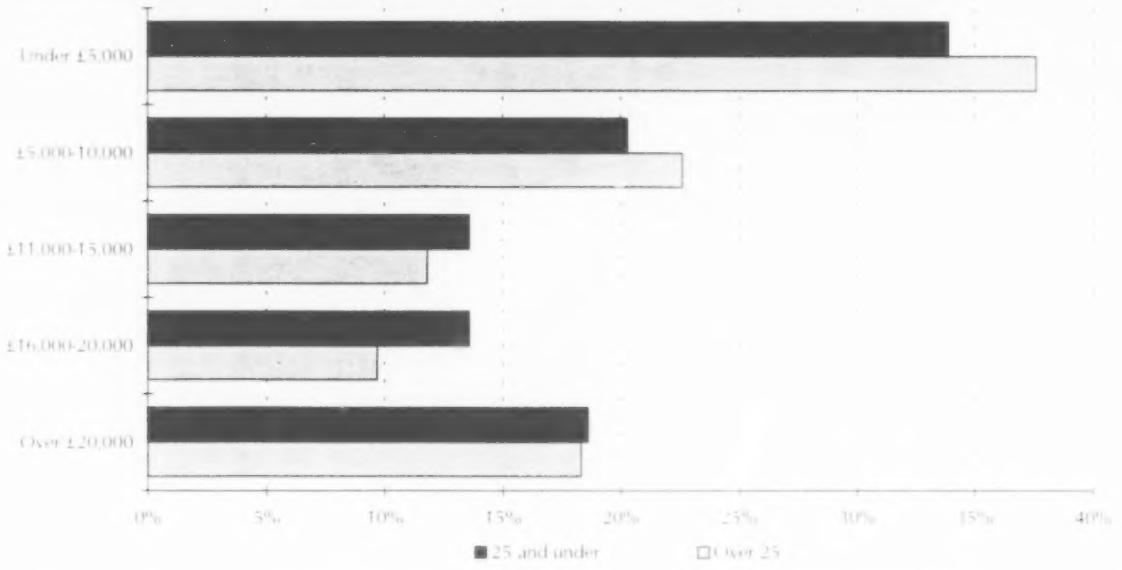
Table 6.1 presents the findings on earnings for the graduates who provided information about their earnings. It must be pointed out that a small proportion of the respondents reported they received no earnings from their venture. This is possible if for, example, the business is in the development phase, or if the graduates are in the process of building a portfolio. In any case respondents were asked to approximate their earnings to the nearest £1,000, and the survey may not record incomes substantially lower than that. From those who reported any

**Table 6.1: Personal earnings of self-employed graduates**

| | £ |
|---|---|
| Upper Quartile | 17,750 |
| Median | 8,000 |
| Lower Quartile | 2,000 |
| *N (base =)* | *152* |

*Source: IES Survey, 1998*

**Figure 6.5: Personal annual earnings of self-employed graduates, by age**




*Source: IES Survey, 1998*

income, the earnings ranged from a minimum of £1,000 to a maximum of over £500,000. The median salary for the sub-sample was £8,000. The gap between the upper and lower quartiles was more than £15,000.

More than one-third (36 per cent) of the self-employed graduates earned less than £5,000 in the financial year preceding the survey. More than one-fifth (22 per cent) earned £5,000-10,000. However, almost one-fifth (18 per cent) earned over £20,000. As might be expected, graduates whose main activity was self-employment earned more than those who included self-employment in a range of employment activities. In contrast to the pattern of earnings among graduate employees, those engaged in industrial activities earned less than those operating in the recreational and service sectors. Men had higher incomes than women, with two-fifths of men (40 per cent) earning £16,000 or more, compared with 18 per cent of women. This is more likely to be due to sectoral effects. It might be expected there would be variations among the cohorts, as income levels are likely to be affected by the length of time spent in the labour market. Whilst this was broadly the case for the graduates in the subsample, the same was not true when the data was analysed according to age. There was only little variation in the earnings of mature and younger graduates. The earnings for the whole sample, though, displays a bi-modal distribution, as Figure 6.5 shows.

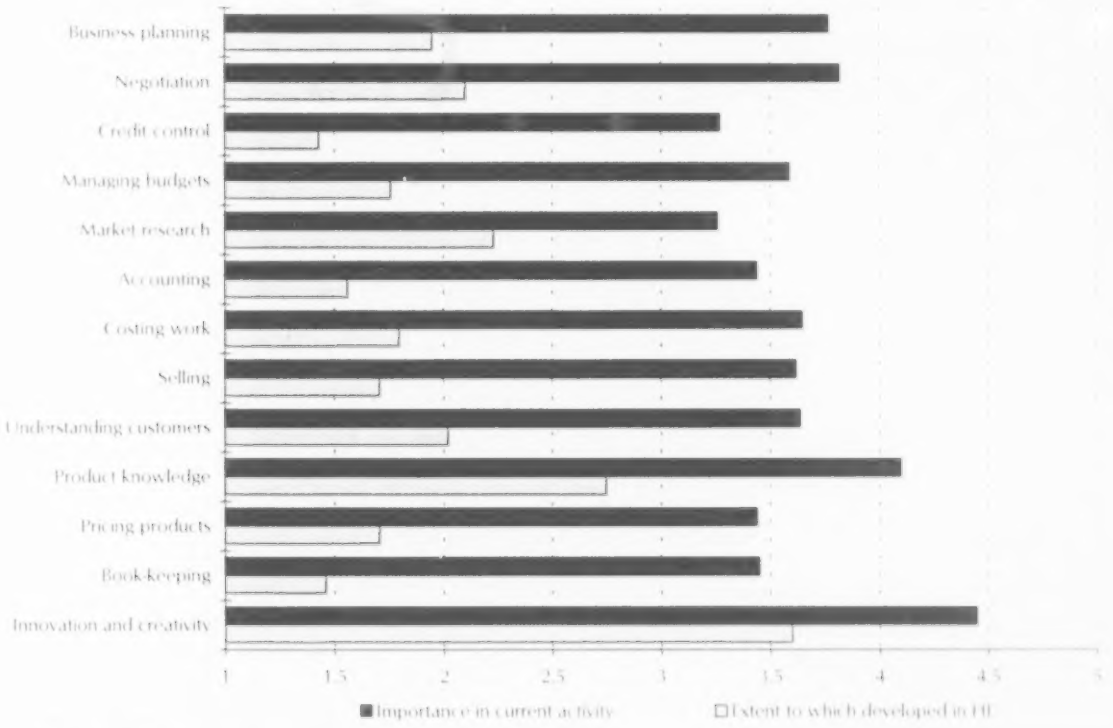
## 6.4 Skill needs and gaps

Although graduates are highly qualified people, they do not necessarily have the skills needed to survive in business. The extent to which new or young graduates acquire and develop

the capability to run a business at the early stages of their career is one that is central to this study. Mullen (1998), from his observation of a small group of young graduates engaged in attempting to start businesses, identified a number of issues pertinent to the process of developing business capability. At the start, the entrants were likely to have little understanding of what was needed to learn. Not only that, but they had insufficient mentoring resources, and lacked the opportunity to exchange information about business practices. Support systems for the new businesses were overly formal and legalistic, and in a way far removed from the process of learning business skills.

Skills issues also appeared important to the self-employed graduates in our study. The respondents were asked for their views on skills which were important to them in their self-employment, and assess the extent to which their degree course had helped them to develop a range of skills. The skill requirements in their current activities were assessed using a five point Likert scale, with a score of one indicating that the skills were not very important, and five that they were very important. The extent to which their time at university helped them develop those skills were assessed on a similar five point scale, with one indicating that higher education was of no help at all, and five that it was of great help in developing those skills. In the analysis we have produced an average score for each factors (Figure 6.6). The higher the average score, the more

**Figure 6.6: Skills developed in higher education and current skill needs**



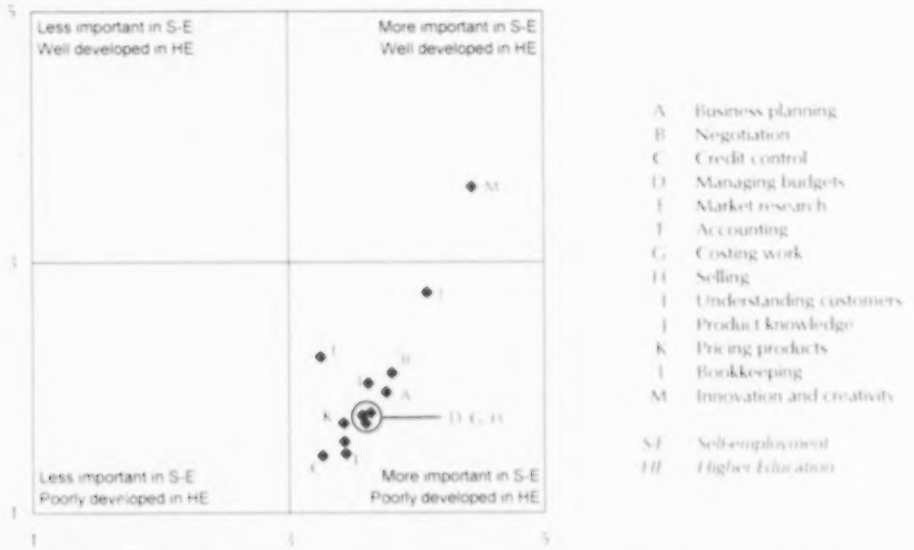

*Source: IES Survey, 1998*

important the skill currently, and the greater the help of higher education towards its development. Average scores ranged from just over one (1.43) to just under five (4.45), and so covered the entire range. Importantly, all the skills were considered to be important, with an average rating of more than three.

At the top of the list of skills which the graduates said they currently used was innovation and creativity. This was given an average score of 4.5, with almost three-quarters (72 per cent) of the respondents awarding the maximum score. This was followed closely by product knowledge, with an average score of 4.1; half the respondents gave this a maximum rating and over a quarter (30 per cent) a rating of four (*ie* that it was important). With mean scores of 3.8, negotiation and business planning were also rated highly. At the lower end of the scale were credit control and market research, with mean scores of 3.3. Only a quarter of the respondents gave these maximum rating.

Figure 6.6 shows there were significant variations between the level of competence achieved in the skills by the graduates at university, and how important those skills were to their current activities. The variations represent the gaps in their competence in the skills required in their day to day activities. The largest gaps were in what may be described as the 'basics' of running a business. They related to book-keeping, costing work and selling, and accounting (with a difference of 1.9). The smallest gaps, *ie* the areas in which the graduates had developed relatively high levels of competence, were in innovation and creativity (0.9) and, to some extent, market research (1.0). Figure 6.7 summarises the importance and development of skills. The quadrants represent combinations of skills in use and the extent

**Figure 6.7: Comparison of development and use of current skills**




*Source: IES Survey, 1998*

to which they were developed at university. It can be seen that the skills were clustered lower down in the south-east quadrant. In terms of their self-employment, it would appear from the chart that higher education is failing to provide the graduates with the relevant skills required to start in business. The task for policy makers, in this respect, is to move more of the factors listed into the north-east quadrant.

In an open-ended question, respondents were also asked about additional skills they had learned in their current business, but which they wished they had been taught or told about when they were in higher education. Their responses, whilst confirming the findings from the survey, also highlighted the constraints which these and other skill deficiencies exert on business start-up. These were felt keenly by graduates who considered their degrees subject would lead inexorably to some form of self-employment. For those graduates in particular, these generic business skills assumed disproportionate importance precisely because their relevance to self-employment and business start-up should have been obvious within the context of their course. The additional skills most frequently mentioned by the respondents included:

- basic computing
- time management — how to plan one's time; organising one's self to get things done and, importantly, keeping work load under control
- selling skills — how to market both product and one's self
- pricing and costing work
- cashflow forecast.

We were able to explore some of these issues in greater detail in the course of our qualitative interviews with self-employed graduates. It was suggested by some respondents that the problem was often not the complete absence of skill, but rather that even the good skills acquired in higher education had rough edges, and so needed perfecting. But for the most part, respondents were in no doubt about the scale of the skill deficit. A few examples from the interviews illustrate the point.

> *'I wouldn't class finance as the first problem. The first problem is sales; learning how to sell, learning how to do marketing, and monitoring what you're doing.'*

> *'You need to know all aspects (of business). But you need to know about marketing. When you go off to do a degree course, you don't want to learn about marketing, you don't want to learn about customers or anything like that. But none of my courses did any of that, and I had to do it all afterwards.'*

> *'I was totally unprepared for this (lack of skills) and had to learn on my feet in the first few months of business, having learnt as much as I could about setting up.'*

*'I found all these skills to be of paramount importance to starting my own business, and would have benefited from an hour tutorial per week to develop them sufficiently.'*

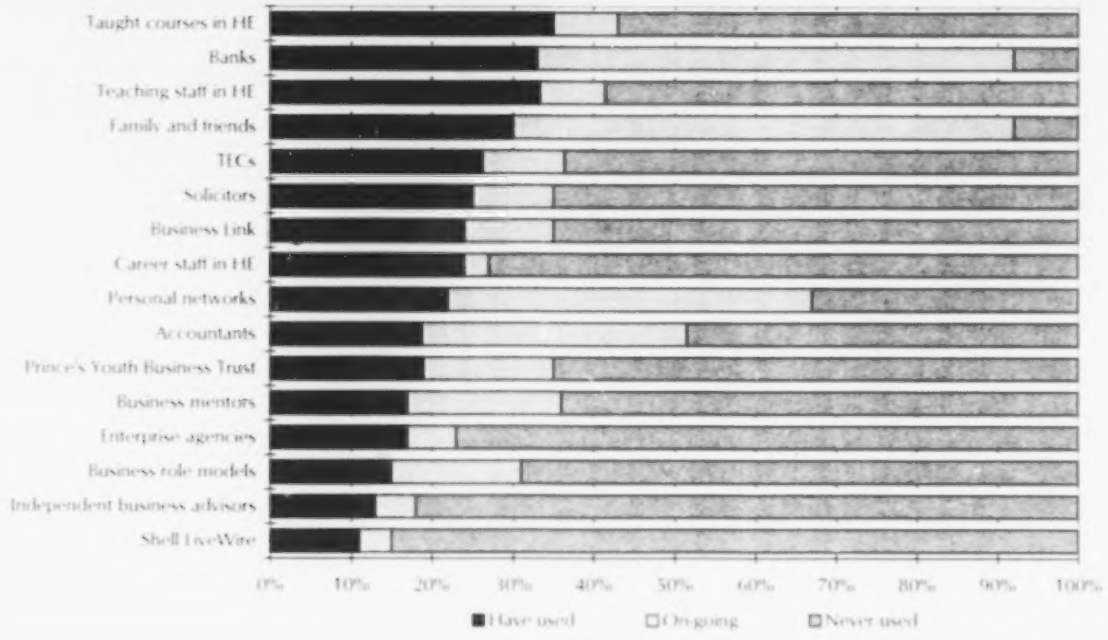
At a much wider level, some respondents suggested that self-employment should have been raised as a serious area for consideration by either their course tutors or the careers service. In particular, they suggested that informative business lectures at university would have been very helpful in their current circumstances. Not only that, but careers advisors could inform students more about self-employment and the possible avenues for help. What emerged clearly from the qualitative response from the survey and the interviews is the belief that more could be done in higher education to equip graduates for a career in self-employment. It is a moot point whether this is a role for higher education.

## 6.5 Sources of business advice and support

Although the graduates were in new businesses based on their own skills and knowledge, they were often quick to recognise that they needed some help in starting up and running their business. The self-employed graduates in the survey were asked about the sources of information, advice and support they had experience of; in particular whether they had ever used them, either in the past but no longer, or whether the relationship was on-going.

The extent to which the graduates had experience of, or used the different sources of information and advice on their business varied, as might be expected. Figure 6.8 shows that the most widely mentioned sources were associated with higher education itself. More than one-third (35 per cent) of the graduates mentioned the course itself, and one-third (33 per cent), the teaching staff. It is not unreasonable that for the graduates in our sample, their course of study would provide them their initial view of its relevance to business. One-third of the graduates (33 per cent) had some contact with financial institutions, as might also be expected. However, the influence of family and friends was significant, with 30 per cent of the respondents acknowledging that source, especially as a source of on-going advice and support. Fewer than one in ten respondents (eight per cent) had never used the advice and support of family and friends. Experience of the other sources varied, principally because of their public nature. TECs, Business Link and HE career services fall into this category. Indeed, fewer than 30 per cent had actually used their careers services. It is noticeable that in addition to family and friends, there was significant use of other informal sources of advice. At least one in five respondents (22 per cent) relied on their personal networks of business contact. The least used sources were mainly of a specialist nature.

**Figure 6.8: Sources of business advice and support used by self-employed graduates**




*Source: IES Survey, 1998*

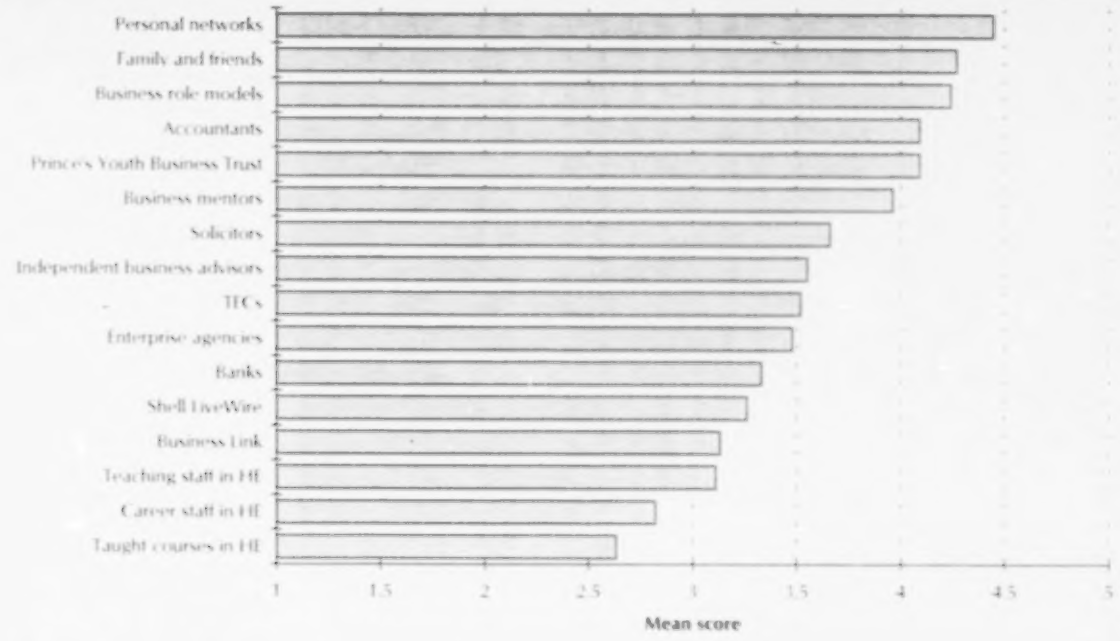
The chart shows, further, the perceived relevance of the sources of information and advice to the respondents, in terms of continuing relationship with those sources. The most important here were the banks, family and friends and their personal networks. There was, however, little on-going contact between graduates and their HEIs. Non-use of the sources of information and advice also showed a much different pattern. It might be expected there would be limited use of the specialist sources of business support, such as LiveWire and the enterprise agencies. However, it is noticeable that almost three-quarters of the graduates (73 per cent) never used the careers service during their time at university. The evidence from our qualitative interviews with self-employed graduates confirmed this to be largely true, and suggested, furthermore, that such graduates were sceptical that the careers service could offer them relevant advice on self-employment.

There were few variations in the use of the sources of advice by different groups of self-employed graduates. On the whole, the women in the subsample were slightly more likely than the men to have used the informal sources, such as business role models and mentors, and their family and friends.

### 6.5.1 Usefulness of advice and support

Those self-employed graduates who had experience of, or used any of the sources of information and advice (shown in Figure 6.8) were asked how useful they had found them. They were asked to do so by rating them on a scale of one to five where 1

**Figure 6.9: Usefulness of the sources of information, advice and support**




*Source: IES Survey, 1998*

was 'not at all useful' and 5 was 'extremely useful'. In this analysis, as with earlier ones, we have produced an average score for each factor (Figure 6.9). The higher the average score, the more useful the source of information and advice.

It is striking that the graduates rated the informal sources of advice as among the most useful, but their contact with HE sources the least useful. The most useful source of advice, with a mean score of 4.5, was the graduates' personal networks. Two-thirds of the respondents (67 per cent) awarded this source the maximum score. Family and friends (4.3) and business role models (4.2) were not far behind. Accountants were also regarded highly. The Prince's Youth Business Trust, with a rating of 4.1, was considered the most useful of the business support organisations. Higher education tutors, careers service staff and the course of study, were at the bottom end of the scale, with only middling rating in terms of usefulness. In their qualitative response, the graduates considered that full-time HEI tutors did not usually keep abreast of new developments in industry and, consequently, could not provide them with information that was up-to-date. One respondent offered the view that:

> *'Full-time tutors may have had their experience in the past, but the industry moves far too quickly; and if you're out of it for only a short period of time (a season), then you're really out of touch.'*

However, such 'deficiencies' could be ameliorated:

> *'... by bringing in other tutors (part-time) who are still actually working in the industry because you know they will be on the ball.'*

The finding provides further evidence for our earlier observation about the graduates' views on the kind of support they would have liked during their time in higher education. They are important because of the implications they have for policy. We explore the likely role of higher education in career guidance in the next chapter.

## 6.6 Career satisfaction and future expectations

Given the diverse nature of their employment histories, how did the self-employed graduates view their career to date? The survey explored their satisfaction with different aspects of their career, and their expectations for the future. In particular, how satisfied were they with their careers when compared with their motivation for choosing to become self-employed in the first place? In the wider context of the study, how did they compare with the other graduates? And what were their expectations for the future, in terms of what they were most likely to be doing, against what they would like to do?

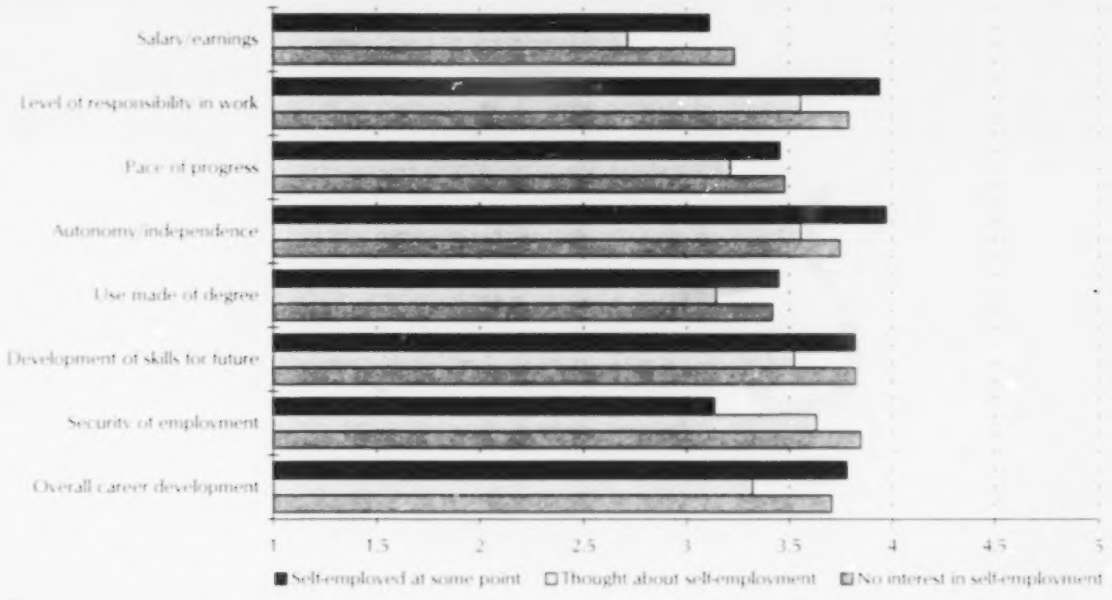
### 6.6.1 Career satisfaction

The self-employed graduates had mixed views on different aspects of their career to date. They were particularly satisfied with the level of responsibility they had in their work (74 per cent) and with the autonomy and independence that they enjoyed (72 per cent). At least three out of every five were very satisfied or satisfied with the skills they had developed for their future careers. Not surprisingly, they were dissatisfied with other aspects of their career. Just under 30 per cent were dissatisfied with the level of earnings, the pace of progress, and the security of employment, and slightly under a quarter (23 per cent) with how they were utilising their degrees in their current activities. Overall, though, two-thirds of the graduates (67 per cent) were satisfied with the way their careers had developed to date.

In order to assess the extent to which they felt they had achieved their ambition for becoming self-employed, we analysed the variance in the levels of satisfaction with their careers to date compared with their motivation for entering self-employment in the first place. This was done by calculating mean scores for all the motivation factors and aspects of their work they were satisfied with or otherwise. We compared their result with the rest of the sample, as shown in Figure 6.10.

It can be seen from Figure 6.10 that the self-employed graduates were more likely than graduate employees to be satisfied with the autonomy and the level of responsibility they had, and with the way their career had developed overall. On the other hand they were also more likely than graduate employees to be

**Figure 6.10: Graduates' satisfaction with their career, by employment status (mean score)**




*Source: IES Survey, 1998*

dissatisfied with their income levels and their security of employment. The differences were statistically significant.

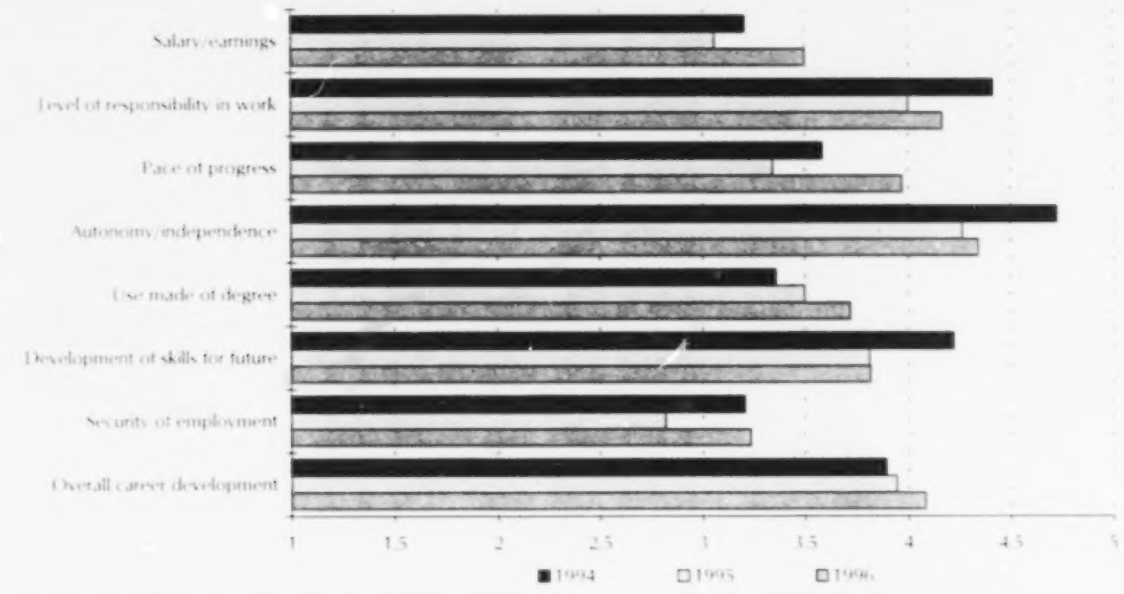
There were variations in the level of satisfaction among different groups of graduates. Among the cohorts, the 1994 graduates were most likely to be satisfied with the autonomy, level of responsibility, and the extent to which they had developed their skills. This is to be expected, as they had been out in the labour market the longest and, therefore, gained more experience in these aspects of their work. But they were the least likely to be satisfied with the extent to which they were utilising their degree, perhaps an indication that the nature of their work had changed significantly since they started in business. The 1995 graduates were the most pessimistic about most aspects of their career to date, while the youngest cohort were most satisfied with their overall career development (Figure 6.11). The differences among the cohorts, though, were not statistically significant.

There was no difference in satisfaction levels when the data was analysed by age. Gender variations were also slight, with women expressing slightly higher levels of satisfaction overall.

### 6.6.2 Future expectations

The graduates in the sub-sample were asked what they might be doing in three years' time. They were asked to distinguish between what they thought they would most likely be doing, and what they would actually like to be doing at that time. Figure 6.12 shows that the graduates were, on the whole,

**Figure 6.11: Self-employed graduates' satisfaction with their career, by cohort (mean score)**

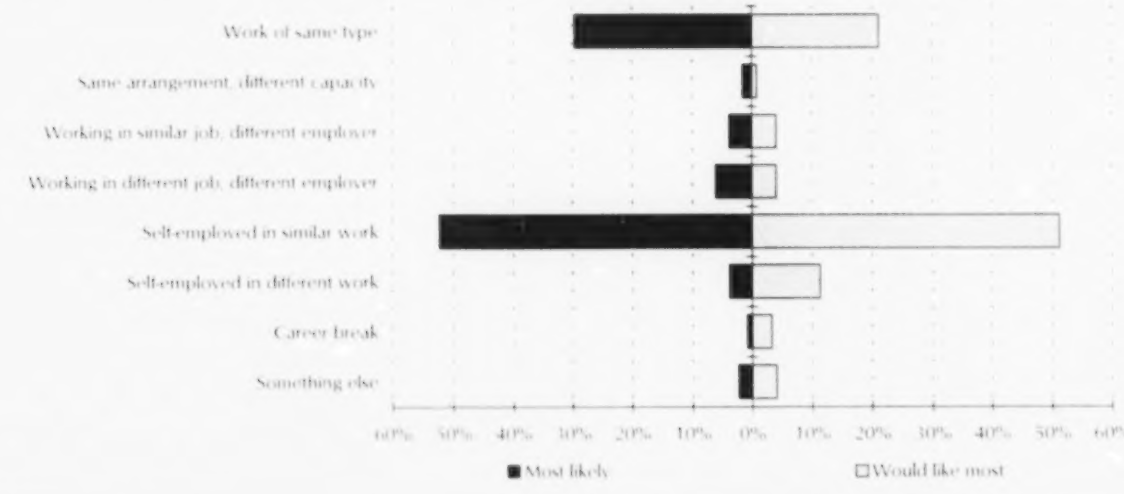



*Source: IES Survey, 1998*

anticipating only slight changes to their careers. The majority expected to be still self-employed in three years' time. Just over half (52 per cent) believed they would most likely be doing similar work to their current one, whilst slightly under one-third (30 per cent) expected to be doing the same job. Only one in ten said they were likely to be working for a different employer.

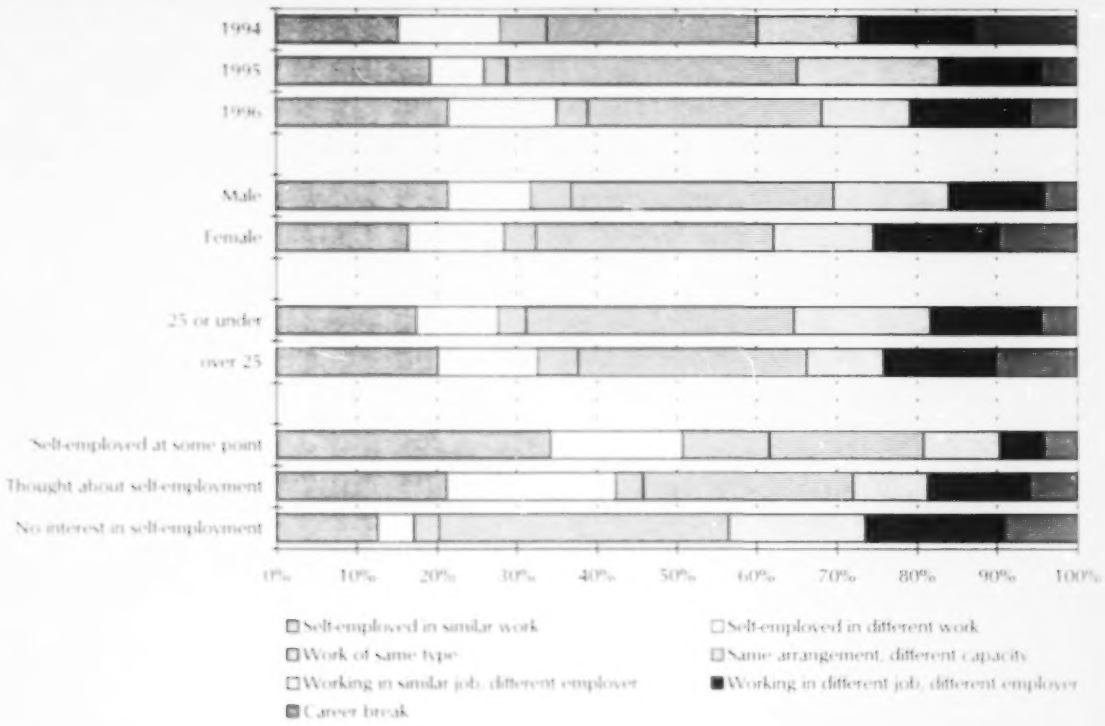
The chart also shows the graduates were optimistic about continuing in self-employment. There was only slight variation, in this respect, between what the graduates expected to be doing and what they would ideally prefer to do in the immediate

**Figure 6.12: Three year career ambition of self-employed graduates**




*Source: IES Survey, 1998*

**Figure 6.13: Self-employed graduates' expected career destination in three years time**




*Source: IES Survey, 1998*

future. Noticeably, about one in ten graduates indicated they would prefer to be doing a different type of work, but still in a self-employed capacity.

The expectations of the different groups of self-employed graduates are shown in Figure 6.13. Among the cohorts, the 1995 graduates were less certain they would maintain their self-employed status in three years' time; they foresaw themselves working in a different job for a different employer (*ie* no longer self-employed). Gender differences were very small. The men were more certain they would be doing the same type of work, while the women were slightly more likely to envisage working in a different job with a different employer. The younger graduates were similarly inclined, *ie* working in a different job. Overall, there were no significant differences in expectation and preference, in terms of their future employment situations, among the different groups of self-employed graduates.

An immediate conclusion that can be drawn from analysis of the future expectations of the graduates in the subsample is that they did not consider self-employment to be a temporary 'lifestyle' activity. On the contrary, they expect to stay in self-employment longer, seeing that as their ideal career destination.

From the survey of graduates, we have profiled (below) two of those who have started their own business.

## Pen portraits

Graduate Y left university in 1995 with a first in Graphic Design from a new university in London. When he entered university he expected a life as an employee, despite having business ideas he would have liked to pursue. By the time he graduated however, he had a preference for following in his father's footsteps, into self-employment. His preference was motivated by a desire to apply his degree knowledge and take early responsibility, and perhaps also to escape unemployment. With the extremely useful advice of a business advisor, over the past year he has built a business which employs 12 other people and he now earns £50,000 a year working part time.

The business subcontracts its services to several large organisations. He is very satisfied with his progress to date, particularly with the level of responsibility he holds, his independence and the development of his skills for the future. At 25 years old, he expects he will continue in business for the foreseeable future, and wouldn't have it any other way.

Media entrepreneur, Graduate X, entered university a little later than most. At 31, she has been self-employed since she graduated in 1995 and has spent the last two and a half years on her current venture, which she combines with other activities. Her company, in film/television production sells its products on an *ad hoc* basis to several larger organisations.

Her upper-second degree in a media-related subject from a new university in London has been very important in her self-employment. Having chosen self-employment in part to extend and develop the skills and knowledge developed in higher education, she also rates her degree as having been helpful in getting established and her work requires graduate abilities.

Graduate X works long hours for her enterprise, typically 50 hours a week. She now employs three, and earns £60,000 pa. Although happy with her income, she is finding the lack of security of employment quite difficult. Despite this, she expects to continue in business over the next three years at least.

# 7. Self-employment as a Career: the Role of HE Careers Services

It is widely assumed that careers advice and guidance services have an impact on determining career choice and destination. We noted in Chapter 1 that Gibb (1997), for example, has suggested there are a number of reasons why UK graduates are less enterprising than their US counterparts. Most of these reflect the perceived failure of the wider higher education community to foster an entrepreneurial culture within its structures. The main reasons cited by Gibb are:

- the absence of positive and active attempts within higher education to shape career aspirations. Gibb refers to the last two years of a course as the key time to attempt to do so.
- graduates equate working for a large organisation as formal and respectable, other options informal and of low status
- undergraduate programmes do not acquaint students with industry/SMEs
- higher education culture does not regard working in an SME sector or starting one's own business as a high status option
- careers services, SMEs and universities do not offer clear gateways into the SME sector; there is also a shortage of appropriate business training programmes for graduates.

Among the possible solutions to these shortcomings is the need to improve basic awareness, an understanding of the SME sector and how it works, and concerted effort to overcome what Watts (1998) has described as 'ways of operating which are more attuned to the large-company culture'. Other studies have also attempted to deal with issues about entrepreneurship and career orientation, and the locus of control of these. Although such views may be considered trenchant, there is no doubt these are strategic issues for HEIs in general and careers services in particular, because of the impact of structural changes in both higher education and the graduate labour market. The question at the heart of these studies is whether the careers services in higher education have an impact on self-employment as a career choice for new graduates, an assumption implicit in the choice of heading for this chapter.

## 7.1 A role for careers advisory service in HEIs

As part of this study, we examined the support HEIs provide for students contemplating self-employment as a career option. That support may be envisaged to take many forms, and also involve actors other than those within institutions. For example, Hailey (1995) has studied the impact of enterprise development programmes in HEIs in different countries. From this he has suggested there are four models of such programmes.

Firstly, an enterprise development programme may set out to promote business awareness and an enterprise culture. The purpose of this type of intervention is to inculcate a set of values, beliefs and attitudes which will encourage aspiration to self-employment, and overcome suspicion or ignorance of self-employment as a career option.

Secondly, the programme may aim to generate entrepreneurs and foster entrepreneurial attributes. This approach assumes that entrepreneurial attributes can be identified in individuals, and can be developed or encouraged. Hailey identifies these attributes to include initiative, persistence, risk taking, efficiency, concern with quality, and commitment. This approach can best be described as promoting ideas about individuality and entrepreneurship.

The third type of enterprise development initiative involves technical and/or managerial skills training. This approach is founded on the assumption that the skills in the second type of programme are useful, but insufficient. An entrepreneur still needs skills such as book-keeping, costing, pricing, marketing and selling. These skills can be delivered in the classrooms and, increasingly, also through books, distance learning, and the like. Hailey foresees a growing need to include this type of training in technical and vocational education. But there are also difficulties, in that where it has been attempted, it has come up against problems; in particular, staff resistance, full timetables, shortage of skilled staff, shortage of training materials, lack of a national curriculum, and lack of policy support.

The fourth approach to enterprise development involves business plan development. Hailey describes this as an action-learning approach, which is built around a process of planning, starting and running a viable business. Gibb sees this approach as 'learning by doing', the aim of which is to provide both insight and knowledge. This method ensures that potential entrepreneurs use market research, engage in creativity exercises, opportunity assessments *etc*. It also aims to link people to a network of contacts, customers, banks *etc*. Hailey suggests that courses built around business plans are increasingly the norm. However, business plan development requires a trainer or facilitator, and has been criticised in some quarters for being elitist, of long duration, and costly. There are also issues relating to methodology

as well, such as when to run the courses, and what the content should be.

From his critical examination of them, Hailey concluded that enterprise development programmes are more effective if they involve small business training, and are targeted at particular groups of students.

If these approaches have wider application, then it might reasonably be expected that the role of the careers advisory service in each of the scenarios will vary. This is not to say that other stakeholders in HEIs do not have a role to play in the development of such programmes. Rather, careers services seem to be strategically placed within HEIs to provide specialist support in the development of 'employability skills', whilst at the same time delivering their core service of information and guidance.

As part of this study we carried out a survey of careers services in all English HEIs to find out, among other things, about the type of service they provide, their views on the level of interest in self-employment, their relationships with external sources of business support, and the extent to which enterprise activities could be included in courses in higher education. We look at the results of that survey in the light of the Hailey models.

### 7.1.1 Promoting business awareness

It could be expected that careers services would be influenced by the attitudes of their major client group (students) to self-employment or starting a business. In our survey of the careers services, more than 90 per cent of respondents suggested that the demand from students for information on self-employment or business start-up was low. Consequently, only a small proportion of their resources (five per cent) were devoted to self-employment activities, compared with becoming an employee or going on to further study. It is a paradox, though, that almost three-quarters (72 per cent) of respondents also acknowledged that self-employment was an important career destination for graduates. From these observations, it is likely that adopting the first of Hailey's approaches could lead to potential conflict where careers services see their principal role as providing information or overcoming ignorance, and how to make the advice they offer fit with what may be described as an apolitical, person-centred ethos.

The evidence from our qualitative interviews with business support organisations and other key players suggested that the conflict is real. There was strong perception among the business support organisations that careers services have less interest in self-employment compared with, say, employer liaison and placement. The quotes below provide an illustration of the

perceived antipathy, among our interviewees, of careers services to self-employment.

> *'Careers services don't seem to look at small businesses. Careers services traditionally encourage graduates to go for blue chip companies. They don't encourage them to look at small business as an option. They don't see small businesses as an option at all. They don't see a progressive path for them (students). They feel that such a career can't provide them with the income that they feel they should have because they are graduates. When I've gone to seek information about small businesses and graduates, I've met reticence.'*

> *'When I spoke to (named university) Careers Service, the response was "well, we don't have any people going into self-employment, people aren't interested in it, graduates aren't — so you'd be better off doing this exercise to teach people how to innovate within a business that's already existing, for a job that they're going to get, not self-employment". And that was the general view of the people I was speaking to. Breaking down that attitude was the hardest part of our training programme.'*

> *'On the issue of self-employment I think because people who are advising graduates are embedded in the culture of PAYE and haven't considered self-employment themselves, it couldn't even occur to them to suggest it to a graduate.'*

The enterprise support organisations were not alone in holding such views, as similar sentiments were also expressed by the self-employed graduates. Indeed, some graduates did not use the careers service at all because they did not think careers staff could offer them a great deal. It is a problem which was acknowledged by some careers advisers themselves. They attributed this partly to the use by careers advisers of a system of personal profiling which focused on occupations rather than careers. One such respondent summed up the dilemma which careers advisers face:

> *'If you have a personal profile of somebody, and that profile happens to be one that might be perfect for setting up a business, there is no mechanism to relate them to that concept because they are all related to occupations, and self-employment is not an occupation — seemingly.'*

It is entirely possible that many of the sentiments included in the views expressed by the enterprise support organisations in those interviews represent a misunderstanding of the role of careers services, not least because they do not purport to offer their major client group those stark options. It is also possible that their opinions may be based on historical views of careers services, and not reflect current practice. Nevertheless, such perceptions tend to carry weight with employers, employer organisations and other policy makers, and could lead to careers services being circumvented or marginalised in the provision of services which include elements geared to providing support for graduates contemplating a career in self-employment.

### 7.1.2 Fostering entrepreneurial attributes

The second approach would, at first glance, suggest that most careers services will channel enquiries about self-employment to external agencies. On the other hand, it also offers potential development opportunities to careers service staff themselves — about identifying, organising and running programmes which foster some of the entrepreneurial attributes. To do so, however, careers services need access to expertise, in-house and elsewhere in HEIs; or become gateways (through clear sign-posting) to off-site enterprise support agencies which may be far better providers of such service. The strategic choice for careers services then is whether to provide such expertise in-house, or externally, or in some combination.

From our survey we know that only few careers services rely entirely on in-house expertise. Although more than half (57 per cent) said they had initiatives to raise awareness of self-employment or starting a business as a career option for their clients, most initiatives were limited to providing information on where to get help. This was explained in part by the lack of relevant in-house expertise. The majority of careers services (73 per cent) who provided such service did so through a mixture of their own staff and external providers. Fewer than one in ten (eight per cent) relied on in-house expertise only, and even then the expertise was concentrated on the supply of information about the sources of enterprise support. Only five per cent of careers services indicated they had staff who could offer advice on business planning, for example; fewer still (two per cent) on student enterprise.

But there is evidence of demand. The self-employed graduates we interviewed suggested that the existence of such expertise at university would have been invaluable to them when they were starting in business. The comment quoted below summed up such sentiment:

> *'They (careers services) could promote a philosophy that says "if you have an existing idea, great, but it might not be the right idea. We will generate lots of other ideas and see which ones are the best". It may be that the one you had forms the core of it, but they could build up around that. In general this would be an area where you have a certain amount of expertise, either through your studies or through some other work, so they would not be really promoting an idea that was totally diversified from your core skills, anyway. So the ideas that come up are built around your skills base and experience, and it quite naturally follows that the ideas you generate and the ones that you go forward with are closely related to what you've done previously, or what you enjoy doing.'*

The issue for policy here is whether what is perceived as a 'cultural bias' among HEIs in general, and the careers service in particular, still prevails; or whether the entrepreneurial attributes identified can be enhanced within the curriculum and other institutional activities.

### 7.1.3 Skills training

The issue with regard to the third approach (*ie* technical and managerial skills training) appears to be that if a large proportion of graduates from particular courses end up becoming self-employed, then should training in these skills be offered to those students? A possible role for the careers service then would be to contribute to course design. This would be in addition to alerting students about their likely destinations and associated skill needs, and providing or facilitating cross-course training.

The evidence from our survey of careers services showed there was overwhelming support for undergraduates to be equipped with some technical skills. More than four-fifths (86 per cent) suggested it was important that the skills necessary for self-employment or starting a business should be included in higher education courses. Careers services which had advised about self-employment suggested that students needed a range of skills. The specific skills mentioned included the following:

- business acumen/commercial awareness
- business planning
- market research/marketing
- financial planning/management
- time and self-management
- networking
- risk-taking
- accessing funds
- presentational skills.

These are also the skills which the self-employed graduates in our survey advocated for inclusion in the higher education curriculum. There are rational arguments which would justify the introduction of such skills sooner rather than later, *ie* at university. First, although there are a number of agencies which might be able to help to develop those skills, they have no impact seemingly on the higher education community for a variety of reasons, including lack of accreditation and heavy student workload. Because there are no mechanisms whereby those agencies could be brought into that community, the programmes they offer are mostly accessed after graduation, although this in itself may be timely for some students. A respondent from our interviews with key players provided justification for early introduction of skills this way:

> *'They (external agencies) might know the technical stuff about this group, about this activity, that activity. But when it comes to the crunch, they are not as trained as people in further and higher education establishments. What happens then is that enterprise*

*training is tacked on like careers advice at the end of the programme; and it should be integrated.'*

The rational argument then is that people have to be exposed to business and enterprise skills at the undergraduate level. Such a role for careers services poses practical problems. It represents a degree of change for the higher education system, principally because it is not concerned so much with the development of entrepreneurial skills. In the past the wider higher education community has been concerned mainly with development of knowledge. This envisaged scenario amounts to asking academics and practitioners in HEIs to give up yet more on what they consider to be their objective for higher education. Consequently, if this represents an attempt to present entrepreneurial skills within all programme areas, for example, there is likely to be a great deal of resistance. However, whilst this may be true of the older, more traditional HEIs, it is considered that the tensions are likely to be less in the more vocation-orientated HEIs. Indeed, we found evidence from our qualitative interviews with careers advisors in such institutions that academic staff have welcomed and supported such initiatives.

### 7.1.4 Business planning

The fourth approach (*ie* Business planning) brings together the different strands of starting and running a business. At first sight this appears to have the least potential for careers services involvement. Other than alerting and signposting graduates to appropriate sources of training, this is an activity more appropriately provided by specialist agencies (such as enterprise agencies *etc.*). Of course, this does not mean that incremental improvements cannot be made (without much difficulty), particularly if help in business planning is brought into HEIs in some way other than as a course component. Indeed, in some cases more effective signposting (say, via Business Link) might be all that is required to make the leap forward. The issue here is the extent to which higher education institutions in general, and careers services in particular, have developed links with external agencies, such as TECs, Business Link, enterprise agencies and other business support organisations.

The self-employed graduates we interviewed were in no doubt about how much they could have benefited from the kind of support the external agencies provide. As one respondent put it:

*'If Business Link had come into my college, and when I was in my third year, I would have just grabbed hold of them with both hands and got as much information out of them as possible. I wasn't aware of Business Link's existence then. There are so many skills that you need to be armed with to run a successful business. Business Link are going to teach you a lot about the formal basics, the funding that is available to you, the business help that is available to you, in terms of your finances, the trading forecast, the cash flow forecasts. Marketing skills is another of their big strengths.'*

Three-quarters of the respondents in our survey of careers services indicated they had some link with external agencies, and had used them to provide advice and support for students seeking to enter self-employment or starting a business. The services of enterprise agencies, TECs and Business Link were the most frequently mentioned. The support from these external sources included general guidance and business planning. But careers services also suggested that their ability to use such external expertise was constrained by lack of time, and, crucially, lack of interest by their clients. This latter point is important, and is likely to arise from the generation gap between external advisers (old) and undergraduates (young). But it is not a gap that cannot be bridged. The young self-employed graduates we interviewed suggested this could be countered by bringing in business people who are their near-peers. The role of careers services here would be to initiate and co-ordinate such links.

There was consensus among careers services that it is important for the skills necessary for self-employment and business start-ups to be included in courses in HEIs. Those who had advised about them suggested that students contemplating self-employment or starting their own business needed skills such as commercial awareness, business planning and marketing, among others as pre-requisites for such a career. These were the skills which, in the opinion of careers services, students appeared to lack, and which it would be useful to introduce or include in their course content.

## 7.2 Supporting the self-employment option in careers guidance

Mullen (1998) in his study of business foundation found that new graduates contemplating a business career needed help in a number of areas. First, new graduates did not know what business owners did. Neither did they have the appropriate language to articulate these concepts. Of course, the same would be true for new graduates, whatever career choice they made. Secondly, they were remote from the business community and other stake-holders, and too diffused to offer much mutual support. These notwithstanding, the contention here is that graduates can learn to be entrepreneurial through practice. This, in turn, means that new graduates need space, time, and appropriate language with which to communicate their thinking in order to practice. However, the type of business that the graduate chooses may or may not offer the opportunity to practice and develop the necessary skills and credibility before the possession or lack of them become critical.

Mullen contends that as business is part of social practice, the people with whom new graduates transact are necessarily 'gatekeepers' to knowledge, and may deny access. The importance of 'gatekeepers' is compounded where there is no peer group with whom new graduate entrepreneurs can share their

learning. New graduates, therefore, need to establish their credibility in order to gain access to resources and learning opportunities. This is where guidance and support in higher education assume additional importance. The careers services can help overcome the barriers to business credibility by helping new graduates to establish contact with the business community to which they aspire. It is true that careers services already have a broad range of initiatives and support activities; they organise talks and presentations by industry specialists, and briefings and workshops by enterprise agencies. A few run business courses, covering management skills or how to run a business, while others encourage students to participate in local enterprise award schemes. Overall, though, provision is not uniform, consistent or universal. What appears to be distinctly missing from the range of initiatives, for example, is a systematic attempt to invite young entrepreneurs or recent graduates who are running their own business to give practical advice which students may probably relate to better. Near-peer role models not only provide an opportunity for new graduates to share learning, but at the same time help address the skills gaps identified by the self-employed graduates.

If it is accepted that self-employment is becoming an important career destination for graduates, then it may be considered necessary to build expertise among careers services staff to provide the required service and support students may need. It is true that the low level of demand for advice on self-employment may not present a pressing need to embark on such a course of action. However, low demand need not necessarily imply low need. Indeed, the survey of careers services showed that the lack of such expertise in-house makes (over) reliance on external experts inevitable, with all the implications this may have on the speed of response to any expressed interest in self-employment by students. Indeed, the ability of careers services to use external expertise for self-employment and business start-up initiatives is constrained by, among other things, lack of time or staff. This means that at the practical level it may be difficult for students who depend on careers services for access to external support to obtain this more readily. Of course, the development of expertise in-house has resource implications for careers services, which will need to be addressed. The responsiveness of external agencies can also be critical, since it could be argued that there is little to be gained in directing students to external agencies who cannot respond to those needs as quickly.

# 8. Summary and Conclusions

## 8.1 Introduction

A number of recent studies have shown how graduate careers have changed over the past few years. Careers which gave 'cradle-to-grave' employment in one company or profession were the norm some 20 years ago. For today's graduate entering the labour market, however, the situation is very different. A mixture of economic and political influences, affecting mainly labour demand, have resulted in structural changes in higher education, industry and the graduate labour market, as a result of which graduates are more likely to experience more frequent career transitions. Self-employment has been identified as one career route which could be of increasing importance to graduates, following structural changes to the graduate labour market. However, new graduates suffer a number of disadvantages which make it difficult for them to pursue a career of self-employment. Gibb (1997) describes their situation thus:

> *'Stimulating aspirations towards business start-up is a complex process involving creating mechanisms for self review and assessment, for finding and appraising business ideas, for making contacts and for overcoming the disadvantages of youth in acquiring resources.'*

Our study has sought to assess the extent to which self-employment is becoming an important career route for new graduates, the form that it takes, and some of the difficulties involved in the processes. The research has shed new light on the employment experiences of self-employed graduates — their career routes, the factors which influence their career choice and, importantly, the type of activity they are likely to be involved in. In the sections which follow we summarise the research findings, and identify issues for policy.

## 8.2 Research summary

**Chapter 1** provided the general background to the study, and included the methodology employed to gather the research evidence. In the main, this included:

- a review of the relevant literature and data
- in-depth interviews with representatives of careers services, enterprise organisations and agencies, and self-employed graduates

- a postal survey of all careers services in HEIs in England, and
- a postal survey of graduates drawn from five HEIs and two enterprise support organisations.

Chapter 2 looked at issues of definition and methodology when researching graduate self-employment. One of the principal issues here was how to define self-employment, and whether there is a need to distinguish this from business start-up. While it was relatively easy to identify what self-employment entailed from the vast amount of literature, there was very little literature which used the term 'business start-up'. A useful starting point, however, was to look at what it was that people did as entrepreneurs, and the arena in which they operated. From the literature, self-employment was defined often within the context of the an individual's tax arrangement. A number of problems were seen to arise from this, such as when low paid or low hours jobs were involved, and people failed to reach the relevant tax threshold. Business start-up was difficult to define straightforwardly because it could be used to describe two types of situations, *viz*:

- the legal form of a business arrangement, such as sole trader, partnership or company, or
- a process which describes the development process of the life-cycle of a business.

In the specific context of graduate self-employment, one of the difficulties for research was to find appropriate comparators against whom to measure the level of activity. An appropriate comparator could enable conclusions to be drawn about the true level of graduate self-employment.

Other difficulties encountered in researching graduate self-employment were associated with methodology. First, self-employment was not considered a static condition or status; increasingly, for some graduates, it had become part of a portfolio of career activities. Second, there was constant entry and exit which made it difficult to measure the true level using a particular point in time as a point of reference.

Against this background, however, it was possible to arrive at a working definition of what constituted graduate self-employment and business start-up. The former referred to graduates who considered themselves to be self-employed, in the sense that they had more than one customer or client. The latter referred to entrepreneurs who complied with the legal forms of a business arrangement, trading solely, or in partnership, or as a company. This included people who had started a business, even if they were now technically employees of that business. But the definitions excluded people who described themselves as self-employed because it suited their sole employers' tax arrangements.

Chapter 3 described the characteristics of the graduates in the sample surveyed. To help assess the likely career patterns of different types of graduates, the sample was divided into three distinct groups:

- those who had any experience of self-employment since graduating
- those who had considered self-employment as a career option either on entering higher education, or at the time of graduation
- those who had no interest in self-employment.

What emerged from the analysis of the characteristics of the graduates was that the level of self-employment among the purposive sample was high. A relatively high proportion of graduates had also considered self-employment as a career option, although they were not yet so at the time of the survey. This means, as well, that when these graduates decide to enter self-employment, they would do so as people who have given the idea thoughtful consideration. More specifically the survey showed that:

- women were more likely than men to have some experience of self-employment. They were also more willing to consider a career in self-employment
- self-employment was influenced by the degree course. The majority of those in self-employment graduated in the creative arts and design
- there was some association, albeit slight, between degree class and self-employment. Graduates with better class degrees were more likely to have experience of self-employment
- a family background in self-employment was a significant factor influencing a labour market status in self-employment.

Chapter 4 focused on the career patterns of the graduates, in particular their early career experiences. The initial destination of the graduates, when assessed one year after graduation, showed that:

- the majority of graduates were in employment as employees; but one out of every eight was self-employed
- self-employed levels varied according to the subject of study; self-employment was highest among media and film graduates; self-employment among art and design graduates was about the average for the sample
- self-employment was significantly high among science graduates, although the numbers involved here were small.

**The significant finding here was that although the subject studied has some influence on self-employment levels, there was greater willingness by graduates (of all disciplines) to include self-employment in their portfolio of labour market activities.**

Two years on:

- the level of self-employment had increased from one in eight graduates to less than one in seven
- there was greater movement from further study into self-employment, more graduates with first class degrees made this transition
- there was less movement from unemployment into self-employment.

Three years on:

- the level of self-employment had increased for graduates who had been out in the labour market that long
- the labour market status of all groups of graduates had stabilised, and there was little variation according to gender, age or subject of study.

At the time of the survey:

- the majority of graduates were in employment, about three-quarters as employees
- two out of every five graduates were self-employed.

The evidence from the analysis of career patterns showed rising levels of self-employment over time. The level of self-employment for the sample increased at each successive sampling point, and was considerably higher in comparison with the graduate population as a whole. This suggests that self-employment was increasingly becoming an important career destination for those graduates. Our findings also showed that the decision to enter self-employment was taken at an earlier stage in the careers of graduates. The aspiration for self-employment and business start-up was also high, and was underlined by the fact that a significantly high proportion of graduates had a business idea they would have liked to pursue. But the evidence also pointed to the fact that aspiration did not necessarily translate into deed. The issue for policy is to harness, stimulate and nurture the ideas and translate them into businesses.

Chapter 5 looked at the graduates' experience in the labour market, in terms of their jobs and utilisation of their higher education qualifications in those jobs.

- job changes were, on the whole, less frequent
- the majority of graduates worked full time, but the incidence was highest among graduates with no interest in self-

employment; by contrast, graduates with experience of self-employment were more likely to work part time in their first job

- the self-employed graduates were the most transient employees, and spent the least time working in that capacity
- utilisation of degrees varied, although on the whole, the majority of graduates thought a degree was helpful in getting their first job
- the majority of graduates worked in the 'other services' sector.

What emerged from the analysis of their employment experiences was that graduates with no interest in self-employment were more likely to follow a traditional employment route, with a full-time job in a large organisation. By contrast, those with self-employment experience opted for smaller organisations. Importantly, the findings here lend support to our earlier finding about how graduates make decisions about their careers very early on and stick to those decisions.

Chapter 6 presented the data on the sub-sample of graduates who were self-employed either at the time of the survey, or had been at any time after graduating with their first degrees. Analysis of the combination of career profiles of the whole sample showed the most common career routes of graduates.

- one-fifth of graduates entered self-employment, and this was their main activity
- between four and five per cent of each of the cohorts were in continuous self-employment
- more graduates entered self-employment after a spell as employees than from unemployment
- there was only little movement out of self-employment.

The graduates in the subsample chose self-employment for a number of factors:

- independence/autonomy and flexibility were the principal motivation
- financial rewards were not very high on their list of motivating factors, nor was security of employment.

Extrinsic factors which influenced the choice of self-employment included:

- family background, in particular parental influence
- work experience, in particular placement in small organisations.

The graduates were engaged in a combination of activities rather than only one type of self-employment:

- the most popular form of self-employment was providing services to customers
- production activity was the next most popular, with graduates producing things to sell
- very few worked within a family business
- there were more women freelances than men
- three in five self-employed graduates worked on their own (*ie* with no employees)
- the graduates were significant employers, and had altogether just under 2,000 employees
- the majority worked an average of 40 hours a week, but a small proportion worked in excess of 60 hours
- earning levels were skewed; the median annual salary was £8,000, and three-quarters earned £18,000
- variations in earning levels reflected the length of time in the labour market.

From their characteristics, two types of graduate self-employment emerged. One was the self-employed business which was likely to only support the owner-manager. The second was the new business start-up with employment growth potential. These latter were more likely to be started by graduates whose motivation stretched beyond the immediate, and to the long-term. The survival rates for these businesses also appeared to be high, given that their owner managers had been so engaged for three years or more.

Skills issues were important to the self-employed graduates. They relied extensively on their innovative and creative skills, which also they believed they had developed to a considerable extent at university. Other than this, there were significant gaps in acquiring and developing generic business skills such as accounting, book-keeping, product pricing, selling and, importantly, business planning. The skill deficiencies were significant constraints on business start-up.

Self-employed graduates relied on a variety of information sources for business advice and support:

- the initial information sources were in higher education, from the course and from tutors
- a high proportion of self-employed graduates did not use the careers service for information or advice
- the most frequently used formal sources of advice were banks, solicitor, TECs and Business Link
- the graduates also relied on more informal sources, such as family and friends and other personal networks. The latter

remained important to them, and was shown by their continuing, on-going relationship with these.

- graduates rated the informal sources as the most useful for information, and for business advice and support
- the graduates considered higher education sources, in particular careers service staff, the least useful for information on business advice and support.

Taken together, the results from the analyses of skills and business advice and support pointed to significant gaps between what self-employed graduates expected from higher education institutions, and what was actually provided.

The self-employed graduates had mixed views on different aspects of their careers. Overall, however, they were satisfied with the way their careers had developed to date. Specifically:

- they were satisfied with the level of responsibility they had in their self-employment, and the autonomy enjoined with it
- they were looking to the future with considerable optimism, and saw their careers continuing in self-employment.

The issue of whether self-employment should be reflected in the curriculum in higher education was one of the objectives of the study. Continuing on the theme of self-employment as an important career destination, Chapter 7 focused on the contribution that higher education makes towards such career. The need for self-employment to be reflected in careers advice and guidance was considered to be important, particularly as it is acknowledged to have an impact on determining career choice and destination. Drawing on a blueprint by Hailey, the study identified four principal areas where careers advisers in higher education could play an important role:

- promoting business awareness
- fostering entrepreneurial attributes among graduates
- contributing towards skills training
- helping in business planning.

The specific contribution careers services could make in each area was considered to depend on three factors:

- prevailing cultural attitudes and ethos — careers services were widely perceived by some enterprise agencies as well as self-employed graduates, to look less favourably on self-employment as an important career destination; and this, in spite of the fact that a majority of the careers services surveyed indicated it was important
- available access to expertise, internal or external — careers services were perceived to lack expertise in-house to enable

them provide relevant advice and support for graduates contemplating self-employment

- the resources devoted to self-employment — very little of the resources of careers services was devoted to activities connected with self-employment.

The conclusion that emerged from the review of careers services activity was the need to develop expertise among staff to review and provide access to support, both internally and externally, that graduates contemplating self-employment would need or find useful. Although there are examples of good practice, in this respect, they are too few and far between. The need for good practice to be more widely disseminated is one of the principal objectives of this study. To that extent, this research report forms one part of the study's dissemination. Good practice materials have also been developed, drawing on the findings of this study and practice elsewhere among HEIs, and will be widely available to practitioners.

## 8.3 Issues for policy

The extent to which higher education institutions are able to develop strategies to support graduates for careers in self-employment or in new business start-up, will be influenced to a large extent by central government policy. At present that policy considers entrepreneurship and innovation which, in turn, lead to small business formation, as central to boosting the economy and leading to jobs growth. The recent Competitiveness White Paper (DTI, 1998) which sets out the government's policy framework to improve the competitiveness of British businesses, sees entrepreneurs as sensing opportunities and taking risks in the face of uncertainty, in order to open new markets, design products and develop innovative processes. However, the White Paper laments the paucity of innovative ideas and know-how which come out of universities. It believes this can be remedied by creating a broadly-based entrepreneurial culture in which people of all ages and backgrounds start their own business. The White Paper also acknowledges that entrepreneurs often fail to realise the potential of their ideas because they lack the business skills they need. A specific role is earmarked for the education system as a whole, to contribute to the development of business skills. More specifically, the higher education sector has been targeted, and plans are being drawn to expand the Young Enterprise Scheme into higher education, but re-focused to meet the needs of undergraduates. The White Paper therefore envisages, among other things, that by the time they leave university, new graduates would be equipped with appropriate enterprise and business skills to enable them start in business.

Against this background, the research findings presented in this report raise a number of policy issues which need to be addressed by different stakeholders, in government and HEIs.

### 8.3.1 Higher education institutions

The evidence presented in this study suggests that the contribution of higher education towards the development of entrepreneurship and business skills is very patchy, mainly because self-employment and business formation are perceived not to afford the same career benefits, in terms of graduates' careers as, say, that in large corporate organisations. Our research findings suggest there are positive reasons why graduates set up businesses, not least of which is the opportunity to take early responsibility for their career. What is needed, therefore, is concerted effort to help dispel some of the misconceptions about the small business sector and the future careers of those who work in it.

Entrepreneurship in general, and business skills in particular, should be regarded as important to the careers of future graduates; and teaching departments should be encouraged to take more responsibility for this aspect of graduates' career development. The need is greater in the more vocational courses from which a higher proportion of graduates enter self-employment (Creative Arts, Design, Film and Media *etc.*). The extent to which departments could incorporate elements relating specifically to self-employment skills in their teaching is a policy issue for HEIs. The minimum provision should be a tutorial system to act as the first line of support for undergraduates likely to become self-employed or start a business. In some institutions there are tutors with experience of self-employment who offer practical advice and pass on their experiences. However, this is usually done on an informal basis. The evidence from this study suggests there is a need for such practices to become a formal part of the course structure. Of course, this raises a practical problem, of whether tutors would really be abreast of developments in their respective industry if they are to be able to provide practical advice and support of the kind proposed. It is increasingly being realised that the development of enterprising behaviour and competencies is useful not only for non-traditional graduate careers, but can also be applied to more traditional careers. Encouraging such behaviour in HEIs is likely to produce much wider benefits.

Increasingly, graduates themselves are seeing the benefits of starting a career in small business. If the policy is to increase graduate self-employment in that sense, then a useful starting point would be for careers advisers to be required to find out how many of their graduates go into self-employment or start in small business. This can be done by collecting career path data through longitudinal surveys and other tracking methods (*ie* not from first destinations survey data). Consequently, careers services could be required to promote self-employment as a valid career option for graduates. Much progress would be made, in this respect, if there was recognition that some courses would, potentially, lead to graduates starting their own

business. One of the problems which careers services face is that at the moment graduate self-employment is seen very much as a 'niche', under the assumption that only about one per cent of graduates choose that as a career destination. That assumption necessarily influences the distribution of the resources devoted to supporting different career types. The result is likely to be a cyclical, self-fulfilling process which will continue to view potential self-employed graduates as constituting only a small proportion of careers services' major client group and, consequently, concentrates resources and effort on more 'profitable' areas. A policy objective should be for a higher target of graduates going into self-employment to be aimed for, and resources redistributed accordingly.

### 8.3.2 Government departments

If one of the objectives of the government's vision of entrepreneurship is to help address the deficiency in entrepreneurial and business skills among new graduates, then there must be concerted effort to provide appropriate support in a systematic manner. At the moment the links between HEIs and the providers of enterprise and business support are rather tenuous. Where they exist at all, they are not on a formal, consistent basis which is sufficient to address the real concerns of new graduates who have business ideas. There is a need to streamline and formalise this *ad hoc* provision of enterprise business support. This may require the proper funding of a support service in HEIs. Given their limited resource base and the constraints on their funding, it is unlikely that HEIs would be able to fund such additional activity. In the short-term, funding could be provided by the Department of Trade and Industry for business support activities by organisations such as Business Link, the Prince's Youth Business Trust (PYBT), LiveWire and other similar bodies. The funds and activities would be administered by the careers services in HEIs. A long-term objective would be for such activities to be provided in-house by careers services with expert staff in business and enterprise support.

If the foregoing is the case, the next issue for policy is the extent to which the skills that are needed by graduates who choose this route can be developed in the higher education environment. It is a fundamental question to ask, as to whether or not this should be done. Here too, if the policy is to have graduates leaving higher education armed with much stronger knowledge, and much greater awareness of the possibilities of starting a business and the skills to make it work, then a lot of encouragement is needed to introduce that sort of education into the curriculum or degree course. This does not necessarily mean everybody should have, say, a module that lasts for so many semesters. It could well be a module or other form of provision that lasted a short period of, say, six weeks in one semester, for example. What this could do would be give potential new

graduates some insight which might be useful in business. This is a policy issue for the Department for Education and Employment. The fundamental question is 'do policy makers want this to happen?'

# Appendix A: Full List of Courses

**Table A1: Industry of self-employment, for those with a history of self-employment**

| | Frequency | Valid % |
|---|---|---|
| Agriculture, hunting, *etc* | 1 | .5 |
| Manuf textiles | 3 | 1.6 |
| Manuf apparel; dressing/dyeing fur | 2 | 1.1 |
| Manuf wood/products/cork, *etc.* | 2 | 1.1 |
| Manuf pulp, paper and paper products | 1 | .5 |
| Publishing, printing, repro recorded media | 7 | 3.7 |
| Manuf. other non-metallic products | 9 | 4.8 |
| Manuf. electrical machinery/apparatus nec | 1 | .5 |
| Manuf. other transport equipment | 1 | .5 |
| Manuf. furniture; manufacturing nec | 7 | 3.7 |
| Construction | 2 | 1.1 |
| Wholesale trade/commission trade, *etc.* | 3 | 1.6 |
| Retail trade, except of motor vehicles | 14 | 7.4 |
| Hotels and restaurants | 3 | 1.6 |
| Supporting/auxiliary transport, *etc.* | 1 | .5 |
| Post and telecommunications | 2 | 1.1 |
| Computing and related activities | 9 | 4.8 |
| Other business activities | 30 | 15.9 |
| Education | 11 | 5.8 |
| Health and social work | 4 | 2.1 |
| Recreational, cultural and sporting | 75 | 39.7 |
| Other service activities | 1 | .5 |
| *Total* | *189* | *100.0* |

*Source: IES Survey, 1998*

# Appendix B: Full List of Sectoral Activity

### Table B1: Degree and subject of those with a history of self-employment

| | Frequency | Valid % |
|---|---|---|
| BA Fine Arts (valuation) (painting)/Combined Arts | 26 | 13.1 |
| BA Graphics/Illu./Photog./Ceram./Surf. pat./Furn./Info. design | 63 | 31.7 |
| BPharm/Pharmacy | 8 | 4.0 |
| BA/BSc Electronic Imaging and Media Comm's/Ed. Media Design | 11 | 5.5 |
| BMus/BA-Music/Commercial Music | 12 | 6.0 |
| BEng/BSc Comp.Sc./Comp.Systems/IT Bus. Management/Ind. IT | 8 | 4.0 |
| (M)BEng Electronic (Engineering) | 3 | 1.5 |
| BA Fashion (Promotion/Comm'n) (Design) | 8 | 4.0 |
| BA Prof. Comm'n (Film/TV) (Media Practice)/Media Studies | 9 | 4.5 |
| BA History of Art (+Italian) (+Lit) | 3 | 1.5 |
| BSc/BA Bus. Studies/Enterprise | 3 | 1.5 |
| Degree — non UK Marketing | 1 | .5 |
| BA Theatre Arts/Drama | 1 | .5 |
| BSc Maths (+Management Studies) (+Geog) (+Comp.Sci.) | 2 | 1.0 |
| BSc Agriculture | 1 | .5 |
| BA Metals | 1 | .5 |
| Bus/Finance | 1 | .5 |
| BEng Civil Engineering | 1 | .5 |
| BA Hospitality Management/Food Consumer Management | 2 | 1.0 |
| BA Modern Languages | 1 | .5 |
| BA English | 2 | 1.0 |
| BA International Studies | 1 | .5 |
| BA Social Science & Public Administration | 1 | .5 |
| BSc Biology and Energy Studies | 1 | .5 |
| HND Beauty Therapy | 1 | .5 |
| BD Theology | 1 | .5 |
| BSc Physcology and Marketing | 2 | 1.0 |
| BSc Economics | 1 | .5 |
| BA Sociology | 1 | .5 |
| BA History and Anthropology | 1 | .5 |
| BA Media Studies | 2 | 1.0 |
| BA Workshop Ceramics | 3 | 1.5 |
| BA Humanities | 1 | .5 |

| | Frequency | Valid % |
|---|---|---|
| LLB | 2 | 1.0 |
| BSc PE | 1 | .5 |
| Manufacturing Systems and Mechanical Engineering | 1 | .5 |
| BA Humanities | 1 | .5 |
| BSc Photographic Science | 1 | .5 |
| BA Film and TV Production | 2 | 1.0 |
| BSc Quantity Surveying | 1 | .5 |
| Bsc Home Economics | 1 | .5 |
| Ba Film Video and Photo Arts | 5 | 2.5 |
| BSc unknown | 1 | .5 |
| *Total* | *199* | *100.0* |

*Source: IES Survey, 1998*

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# Graduates Mean Business

N D Jackey, S Petersen

One of the key changes in employment patterns in the 1980s was the growth in UK self-employment and the increase within this of particular groups. There is little evidence on the extent to which self-employment has become an important career destination for new graduates. The graduate labour market is changing, and graduates can no longer expect stability and linear career progression in organisations. For some, self-employment offers further labour market opportunities. Success requires development of entrepreneurial and specific business skills. This report focuses attention, among other things, on the support various stakeholders in higher education provide for students considering self-employment.

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ISBN 1-85184-286-1
9 781851 842865